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INDUSTRIAL CO-OPERATION OF BULGARIA WITH COUNTRIES
HAVING DIFFERENT ECONOMIC AND SOCIAL SYSTEMS

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Foreword

The present paper continues the series of studies dealing with the promotion of trade, through industrial co-operation, between countries having different economic and social systems, in pursuance of the mandate given to the UNCTAD secretariat by Conference resolution 53 (III). With its newly adopted legislation stimulating industrial co-operation, Bulgaria seems to offer a particularly propitious and topical example of recent developments in this particular field.

Introduction

1. International industrial co-operation between enterprises, firms or other economic organizations from countries with different economic and social systems is both economically and politically a new feature of international economic relations. The competent Bulgarian authorities have recently adopted a number of normative acts to encourage long-term and mutually advantageous industrial co-operation as an important factor for trade expansion. To this end, favourable conditions and prerequisites are created in the planning, financing, credit, customs and other fields and the fulfilment of contractual obligations assumed by a Bulgarian economic organization and approved by the Bulgarian side in accordance with existing legislation is being guaranteed. 1/

2. In recent years, several definitions of industrial co-operation have been elaborated in different fora, and by different authors. 2/ However, practically all of them stress the element of length and continuity of links between the partners, and enumerate a shorter or longer list of the forms of relations to be considered as industrial co-operation. In this paper the following forms are considered:

- deliveries of equipment and maintenance;
- sub-contracting;
- joint ventures and activities; and,
- operation in association (joint supplies).

1/ Decree No. 1196 for economic, industrial and technological co-operation with foreign juridical and physical persons, adopted by the State Council of Bulgaria on 12 June 1974 (State Gazette (Dzhazhven Vestnik) No. 46 of 14 June 1974).

2/ See, among others: "Analytical report on industrial co-operation between the ECE member States" (ECE/844, 14 March 1973); "Motivations, patterns, problems and prospects in industrial co-operation between enterprises of socialist and developing countries" (TD/B/490/Supp.1); (TRADE/GE.1/R.4 of 22 August 1973); Committee on Trade and Development (ECE), Group of Experts on International Agreements in Industry, TRADE/GE.1/R.6 of 15 July 1974. For definitions adopted in Romania see: "State Gazette" of Romania, No. 33 of 17 March 1971 and "Romania - Trade and Economic Co-operation", issued by Romania's Chamber of Commerce, Bucharest, 1972; in Czechoslovakia: Article 1.3 of Law No. 85 concerning the ways to conclude contracts for economic co-operation passed by the Federal Assembly of Czechoslovakia on 1 November 1972; in Poland: Directives approved by Decision No. 170 of the Council of Ministers of the Polish People's Republic. For views of different authors on this see: A. Adahl, "East-West co-operation", Brussels, 1969, page 5; Professor René Clémens, "Co-operation between enterprises - Experience and problems", Liège, pages 123, 126; H. Kortzfleisch, "Die zwischenbetriebliche Kooperation", pages 170-171; A. Sölter, "Grundzüge industrieller Kooperation politik", page 234; and R.A. Novikov and Y.V. Shishkov "International co-operation of capitalist firms" in Misal, Moscow (1972), pages 70-71.

3. Bulgarian legislation contains an original economic and legal definition of the concept of industrial co-operation, which regulates it in a broader sense reflecting a number of original approaches:

"The economic, industrial and technological co-operation, subject to this Decree, is effected on the basis of agreements between Bulgarian economic organizations and foreign juridical and physical persons for lasting joint activity, to the mutual advantage and interest in the final results of this co-operation. Payments between the parties are made totally or in part in goods or services mutually supplied or in means obtained from the fulfilment of the agreement." 3/

The definition contains several major elements, some of which are typical for the Bulgarian normative acts alone, namely:

(a) Co-operation is carried out under an agreement between partners, one of whom has a foreign legal status; consequently, from the point of view of the Foreign Trade Act, it is a foreign trade transaction. This means that the provisions related with the state monopoly over foreign trade activity are applicable to these operations; 4/

(b) The contractual relations between partners have a stable character. Only stable contractual relations between partners can make it possible for them to plan and forecast the expansion of their activity, and make investments;

(c) Co-operation is a joint economic activity. The Decree 1196 defines the meaning of joint activity. The Foreign Trade Act opens opportunities for closer contacts between partners in research, production and trade, and better planning of the future joint enterprises;

(d) Joint activity is based on the mutual advantage and interest of the partners in the final results of the co-operation. The legal possibility exists for sharing the economic benefits as contracted between the parties, in accordance with their concrete contributions. 5/

(e) Payments between the parties are made, fully or partially, by mutual exchange of goods or services under the agreement, or by means acquired by the parties from the sale of the goods or products, or through the activities constituting the object of the agreement for co-operation.

3/ Article 2(1) of Decree No. 1196 op. cit.

4/ Foreign Trade Act (State Gazette, No. 94 of 5 December 1969), Article 2 defines foreign trade transactions as follows: "Foreign trade activities in the sense of this law include all kinds of transactions for the export or import of goods, the re-export and transport connected with them, for representations, foreign trade publicity and propaganda, transfer of copyrights and rights over inventions, trademarks and industrial models, transactions in the field of technical experience and other activities connected with the international economic relations when one of the parties is a foreign juridical or physical person."

5/ An exposé to this effect made by Andrey Lukanov, First Deputy Minister of Foreign Trade of P.R. of Bulgaria during "Bulgarian Days in Paris" (February 19-20, 1974) and published in L'Europe orientale No. 95, Paris, February 1974.

Under the new Bulgarian legislation, the technical-economic aspect of industrial co-operation comprises the whole cycle: the phase of research and investigations, the working out of the project, the phase of building the enterprise or reconstructing the existing one, the organization of production, control over the introduction of technology and the formulation of certain qualitative and quantitative indices. Later, the cycle also includes the phase of marketing and the use of different trade practices.

Determining factors

4. Among the general factors determining and influencing the emergence and further development of industrial co-operation between countries having different economic and social systems, several seem to be especially important:

- (a) The normalization of political relations particularly in Europe, facilitating solutions to unsolved problems left over from the Second World War;
- (b) The appearance, after the Second World War, of a number of new States in Asia and Africa seeking independent ways for development and thus introducing new forms in traditional trade and political relations with other States;
- (c) The endeavours of international organizations, and in the first place the United Nations and its specialized agencies, to promote favourable conditions for the development of international trade and co-operation;
- (d) The ever-widening network of multilateral and bilateral intergovernmental agreements creating the necessary framework and institutions for the development of trade and industrial co-operation;
- (e) The measures taken by a number of countries wishing to intensify the development of different branches of their national economy;
- (f) The discriminating policies of economic groupings, forcing outsiders to seek new methods for overcoming tariff and non-tariff barriers;
- (g) The activities of multi-national companies (associations) in some developed market-economy countries, aimed at the division of markets among themselves and the elimination of competition, inducing other enterprises to seek various other forms of integration and joint trade policy;
- (h) The scarcity of labour in some developed market-economy countries and particularly the complex problem of absorbing large numbers of unskilled foreign manpower;
- (i) The all-round technological progress supported by growing expenditure on research and design;
- (j) The rising costs of some economic activities, such as the extraction of raw materials, which frequently require new and expensive technologies;
- (k) The need to concentrate production in a reduced number of large-scale industrial units close to the raw materials, the sources of energy, and the available manpower, which often requires enormous capital investment beyond the capacities of an individual enterprise or State;

- (l) The difficulties in covering the growing needs of the individual countries by domestic production;
 - (m) The difficulties in obtaining a smooth flow of raw materials suppliers, inducing countries to co-operate in the establishment of material conditions necessary for this purpose, namely, the production and technical bases, capital, personnel, etc.;
 - (n) The development of transport and communications and the mass media; the unification of standards and methods for the technical elaboration of projects and documentation, etc.;
 - (o) The instability of world markets, sharp price fluctuations, currency crises, and the recent sudden changes in the markets for raw materials and energy, encourage many enterprises from countries with different economic systems to search for stability through industrial co-operation.
5. Some factors, peculiar to Bulgaria, should also be mentioned here in brief. Thus conditions favouring international industrial co-operation were created by:
- (a) The fast development of the country, its transformation from a backward agrarian into an industrialized country, as a result of the socialist reconstruction, and its growing participation in socialist economic integration;
 - (b) The emergence in its major economic branches of a small number of large economic units - State economic associations and agro-industrial complexes, equipped with modern and costly technology, able to solve the problems of modern production;
 - (c) The existence of numerous research and design units which form part of the production system and are closely related to its problems, thus presenting opportunities for equal partnership to the respective foreign economic organizations;
 - (d) The steady expansion of foreign trade (reaching about 1,000 leva per capita in 1974) ^{6/} and trade relations with a large number of countries witnessing that Bulgarian production easily meets the requirements of international markets.
 - (e) The favourable geographic situation offering transit and other transport facilities between countries rich in raw materials and energy but short of capital, skilled labour, and of experience in industrial production and trade on the one side, and, on the other side, developed industrialized countries of Western Europe having rich industrial traditions and the necessary means and material basis, etc.

^{6/} One US\$ is equal to lev 0.97 according to the Bulgarian National Bank rate of exchange towards 6 May 1975 (State Gazette, No. 35, 6 May 1975).

The legislative framework

6. The speedy development of Bulgaria's economy, and the expansion of the country's foreign trade relations, required a parallel perfecting and diversification of policies and methods of work in the field of foreign trade, especially with countries outside Eastern Europe. This approach was in harmony with the consistent efforts of the socialist countries to strengthen co-operation between States. 7/

7. As far back as 1961/1962, a number of Bulgarian economic organizations had already concluded contracts for industrial co-operation with foreign enterprises and firms. These were mainly simple forms of co-operation; the interests invested were not large, the terms were limited. Individual joint enterprises were set up in Morocco, the Sudan and Ethiopia, for the assembly of machines with parts supplied by Bulgaria, or enterprises for processing of farm products, fishing and fish processing, as well as processing of tropical timber, among other activities. Some of these activities are still successfully going on; others were terminated with the expiry of the agreement; still others were transferred to local State organizations or private firms because of changes that had taken place in the administrative regulations in those countries. After 1967, the development of industrial co-operation with foreign countries reached a level which, in both volume and form, gave reason to believe that a second, more developed stage had been attained. At that time a great variety of activities and services offered by both the Bulgarian and the foreign partners, were appearing in the practice of industrial co-operation, such as: supply of machines, transfer of technology and documentation, rights, trade marks, etc.; training of specialists, joint solution of market problems, etc. Most of the contracts concluded at that time are still in force today. In some cases new agreements have been concluded on the basis of the old ones, adding to them the experience accumulated by both partners. By 1975, the number of long-term industrial co-operation contracts between Bulgarian economic organizations and firms from countries outside the CMEA went beyond 100 and it was felt that the time had come to synthesise the experience gained and give a new impetus to industrial co-operation through specific legislative measures.

8. Dealing with issues pertaining to industrial co-operation in a systematic and coherent manner, the newly adopted legal prescription endeavoured first, to set out the aims which were expected to be achieved. 8/

(a) Industrial co-operation was expected, first, to result in building up new production capacities and modernizing the existing ones. The establishment of new production capacities both inside and outside the country were envisaged, as well as the modernization of some enterprises on the basis of Bulgarian or foreign technical experience and knowledge.

7/ "The CMEA member-States, acting in accordance with their policy of peaceful co-existence, and in the interest of social progress, and taking into account the fact that the international socialist division of labour takes into consideration the world division of labour, will continue to develop their economic, scientific and technological relations with foreign countries, regardless of their social or government system, on the principles of equality, mutual advantage and respect for each other's sovereignty." Chapter I, part 1, para. 3 of the Comprehensive Programme for the further promotion and improvement of socialist economic integration among the CMEA member-States (Partizdat, Sofia, 1971).

8/ Article 3 of Decree No. 1196, op. cit.

) Another aim was the introduction of new types of production based on the most sophisticated technology and the latest scientific and technical achievements. The requirements concerning technology were indicated in detail by Decree No. 9 of the Central Committee of the Bulgarian Communist Party (CC of the BCP) and the Council of Ministers on 1 August 1974 9/ on the accelerated application of scientific and technological achievements in industry. This also applies to activities organized by Bulgarian economic organizations in foreign countries, including developing countries.

(c) A further objective was the improvement of labour efficiency, the increase of the social productivity of labour, and the improvement of the quality of production. This essential element of Bulgarian legislation is perfectly applicable to co-operation with foreign countries, including the developing countries which lack sufficient qualified personnel for the needs of their technologies. The experience of Bulgarian organizations in improving the organization of production and in better training of personnel can be used in co-operation with these countries.

(d) Industrial co-operation is expected to contribute to the better satisfaction of the internal demand. The programme for better satisfaction of the needs of the developed socialist society and for raising the people's standard of living also deals with this objective in that it lays down a set of tasks to be achieved by the different branches of the economy, including the production of more consumer goods of better quality and provides for international co-operation to this end. 10/

(e) International industrial co-operation facilitating the increase of export capacities is one of the major attractive features for both Bulgaria and other interested States, including the developing countries.

(f) The rational use of the material and labour resources of the contracting parties was taken up by the law as being of primary importance. The law provides guidance to the co-operating partners as to how to seek the most efficient utilization of resources in their respective countries. In particular, conditions are thus established for facilitating the employment of local manpower.

9. Bulgarian laws 11/ define the major economic areas in which co-operation with foreign and domestic enterprises can be contracted. Although the Decree applies to Bulgaria, its stipulations and norms do not contradict legislation in countries having a different social system but regulates contracts with organizations from these countries. The economic areas are:

(a) Industry and its branches: engineering, metallurgy, mining, chemical industry including oil refining, petrochemical production and pharmaceuticals,

9/ Programme adopted by the tenth Congress of the BCP; (Decisions of the December Plenum of the CC of BCP 61973).

10/ Published in the State Gazette, No. 73 of 14 September 1973.

11/ Article 2 of the Regulations on the application of the Decree on economic, industrial and technical co-operation.

electronics, electrical engineering, construction of power capacities, power generation, raw materials and semi-manufactured goods, and affiliated activities in the utilization of natural resources.

(b) Construction, including the construction of industrial projects, power equipment, land reclamation, drainage installations, and welfare facilities; construction in the field of culture, sports and the health services. This text reflects the practice adopted by Bulgarian economic organizations in construction abroad, mostly in the developing countries. Further regulations can soon be expected, on the basis of the considerable experience already accumulated by Bulgarian enterprises.

(c) Agriculture, including the improvement of methods and effectivity of land cultivation, growing of crops and cattle-breeding, as well as in processing of farm products and products of animal origin.

(d) Transport, i.e. construction of roads, ports, railway stations and airports; production of transport and communication machines and equipment. The experience of Bulgarian economic organizations in international transport (the International Automobile Transport State Economic Association is the largest European organization in this field) can serve as a basis for co-operation in organizing transport in some countries in the Near East, the Middle East and North Africa, which are geographically conveniently located.

(e) Trade; mainly international, as a complementary activity connected with the organization and realization of marketing of the object of co-operation, according to the above-mentioned paragraphs. Here are included: the exchange of goods, commodities and services, and jointly organized trade either in the commodities that are the object of industrial co-operation, or in other material values, connected with the basic activity.

(f) Credit operations as an activity subsidiary to the ones mentioned above; mutual grant of credits; or joint grant of credits to, or their possession by, third parties.

(g) Other complementary activities or services connected with the object of co-operation, or within its scope.

10. The field of industrial co-operation has recently become a subject of growing importance for multilateral and bilateral regulations. Industrial co-operation between States with different social systems has been dealt with in the documents issued by the United Nations bodies such as the Economic Commission for Europe, UNCTAD, UNIDO, UNCITRAL, etc. They, however, lack formal legal power with respect to the individual countries economic organizations and firms, being only in the nature of recommendations. Nevertheless, they are of the utmost importance since they aim mainly at:

- securing the necessary information on matters related to international industrial co-operation between States with different social systems;

- offering recommendations and measures for unifying the forms of contracts on international industrial co-operation, and working out unified regulations facilitating the task of the economic organizations of the different countries in concluding agreements for industrial co-operation;
 - providing information about the régime established by legislation in different countries concerning contracting and this field;
 - comparing the experience of different countries, including the experience of the economic organizations of those countries;
 - disseminating information on concrete agreements, both bilateral and multilateral, concluded between States or between economic organizations and firms;
 - identifying economic fields and individual economic activities in which the economic organizations and firms of different countries would be interested in establishing industrial co-operation;
 - preparing studies on the role of industrial co-operation in the expansion of trade and all-round economic and political relations between States with different social systems.
11. A number of conferences, symposia, etc. organized upon the initiative of one or more States, or as a social or private undertaking, aim at creating conditions for the establishment of contacts, closer mutual knowledge between the business circles of the different States, and exchanges of experience. Bulgaria's competent authorities take a positive attitude to the work of the United Nations specialized bodies, as well as towards any State, social, or private initiative for establishing or extending long-term mutually advantageous industrial co-operation and they participate in undertakings of this kind. In 1974 the town of Varna (Bulgaria) was host to the seventh International East-West Conference on Trade and Industrial Co-operation organized by the European Management Centre and the Bulgarian Chamber of Commerce and Industry. About 300 representatives of large enterprises and firms from all continents participated in the Conference.
12. On the bilateral basis, Bulgaria had by the end of 1974 concluded about 70 intergovernmental agreements for economic, industrial, scientific and technical co-operation with developing countries and developed market economy countries, about 50 of them with the former. However, this is not the exact figure of its international bilateral agreements for industrial co-operation, since a number of other trade, payments, tourism or transport agreements contain a series of clauses regulating long-term co-operation with these countries.
13. The concrete economic activity which is the object of these agreements is carried out not by the Bulgarian State as a contracting party, but by the respective Bulgarian economic organizations, which are independent juridical persons, owning property and exercising rights over the property placed at their disposal by the

State, and, as legal persons, bearing rights and obligations towards their partners. 12/ The economic organizations, even when they are State organizations, are independent juridical persons. 13/

14. According to legal prescription, 14/ "The agreements for co-operation are concluded on the Bulgarian side by a State economic organization or by the respective foreign trade enterprises, after authorization from the competent authorities". Hence, the Bulgarian party to the contract consists of two Bulgarian economic organizations, namely, a producing enterprise and a foreign trade enterprise that effects the foreign trade operations of the deal. Relations between the two Bulgarian organizations, constituting a party to the agreement concluded with the foreign partner, are settled between them through appropriate contracts. 15/

This means that even if the obligations of the two Bulgarian organizations constituting a party under the agreement are not specifically and expressly determined by the agreement with the foreign partner, they should be settled between them under a separate internal agreement. The foreign partner receives all necessary contractual guarantees with the simultaneous signing of the agreement by the two Bulgarian economic organizations. In the case of failure of the Bulgarian side to carry out its obligations, the eventual dispute would be settled according to the object of activity of either Bulgarian economic organization (the productive or the foreign trade one). All foreign trade and payments transactions are carried out by the foreign trade organization, while all production activities, services or other economic activities are carried out by the producing Bulgarian organization, whether the object of the agreement is to be realized in Bulgaria or abroad. An

12/ Regulations for the State economic organizations approved by Decree 26 of the Council of Ministers of 20 November 1970 (published in the State Gazette No. 98 of 11 December 1970): (a) model statute of a foreign trade company, approved by the Council of Ministers (published in the State Gazette No. 11 of 7 February 1967); (b) regulations concerning the associations, approved by the Council of Ministers (published in the State Gazette No. 4 of 12 January 1973). On the juridical relations between the enterprises and ownership of means of production, see also the Constitution of the People's Republic of Bulgaria, which stipulates: "... plants and factories, the banks, the mineral resources, the natural resources of energy, forests, pastures, waters ..." etc. "are public property"; and "the co-operative and public organizations may own means of production and other property"; and "the State exercises its rights on property by setting up economic and other organizations and participating in State-co-operative organizations at the disposal of which it places property for management".

13/ Ibid. "The State economic organization enjoys rights and is bound by obligations stipulated by the law and corresponding to the purposes and object of its activity". "The State is not responsible for the obligations of the State economic organizations, just as the latter is not responsible for the obligations of the State, except in those cases provided for by normative acts".

14/ Article 4.1 of Decree No. 1196, op. cit.

15/ Article 7 of the Regulations, op. cit., stipulates: "The Bulgarian organizations constituting a party under the agreement for co-operation, secure the fulfilment of their obligations and are responsible for it. The rights and obligations of the economic and foreign trade organizations relating to the fulfilment of the obligations under the agreement for co-operation, are settled between them through contracts".

additional guarantee for the differentiation between the obligations of the Bulgarian economic organizations that are a party to the agreement for co-operation, is the statute of each of them. 16/

15. It is normal that the activities taking place in Bulgaria are subject to Bulgarian legislation, that is to the provisions of the Foreign Trade Act, the Law on Obligations and Agreements and a series of other normative acts related to economic activities in Bulgaria. However, this does not restrict the activities of the Bulgarian economic organizations in foreign countries, where the respective foreign legislative or the legislation agreed upon by the Contracting parties applies, including Bulgarian legislation, if it does not conflict with local regulations.

16. The new Bulgarian legislation also regulates some other questions of relevance to industrial co-operation, such as the status of foreign nationals working in Bulgaria, as well as the status of their families; 17/ and in particular the guarantees of the rights and interests of both contracting parties in respect of their home legislation, the freedom to negotiate contracts in their best interests, on the basis of equality and mutual advantage. 18/

17. The new Bulgarian legislation can be considered an original and modern system of legal norms, based on both Bulgarian and foreign usages and experience. This system is intended to eliminate or regulate certain incompatibilities which might arise in long-term relations between partners from countries with different economic and social systems, or to replace certain conventional forms of business transactions unsuited to Bulgaria's economic structure. At the same time, a particularly important feature is that it takes into account the interests of the foreign partner.

18. The specific character of the Bulgarian approach towards international industrial co-operation consists in a number of legal and material advantages of the systems in force in Bulgaria. It gives the foreign partners the following general privileges:

- direct participation and other activities organized under the contractual provisions, regardless of the fact that this co-operation may not take the form of a joint-stock company with property different from the property of the socialist economic organizations;
- formulation of the rights and obligations of the foreign partner regarding the achievement of the agreed targets and results of such co-operation;
- a guaranteed share to the foreign partner in the economic effect achieved, in proportion to his contribution, as stipulated in the contract;

16/ Article 12.1 of the Regulations concerning the State economic organizations (State Gazette No. 98 of 11 December 1970) foresees: "The act for establishment of a State economic organization and its branches determines: the name, the object, the field of activity, the seat, the means available, and the way in which they will be received."

17/ Articles 18-24 of the Law on Foreign Nations, published in the State Gazette No. 93 of 28 February 1972.

18/ Articles 1.2, 2.1, 4.1, 4.3, 5.1 and 5.2 of Decree No. 1196, op. cit.

- the use by foreign partners of the legal facilities envisaged for the planning, financial and other aspects of such activities.

It would be wrong to believe that these regulations govern the activities of Bulgarian economic organizations in Bulgaria alone. The four above-mentioned rules are applicable both in Bulgaria and abroad. They can be found in the legal norms of the commercial law of most countries. Bulgarian legislation thus aims at affirming the principle of equality and mutual advantage between partners. The contracting parties are not obliged to include them in the contracts but they can use them, if this is in their interest and if it is not forbidden by the respective foreign laws. These norms of the Bulgarian legislation go beyond Bulgarian experience proper, and may serve as an example for mutually advantageous co-operation to other countries as well.

19. The Bulgarian planning authorities include in the general plan the activities ensuing from the provisions of co-operation agreements with foreign partners. As already indicated, the competent Bulgarian authorities shall ensure:

- (a) Necessary resources to Bulgarian enterprises under the plan;
- (b) Incorporation of the activities under contract into the general plan, thus creating favourable conditions for the regular supply of raw materials, fuel, energy, spare parts and assemblies, etc. In view of the existing and often very sudden changes in the prices of raw materials and fuel in the world markets, the stable supplies of the Bulgarian economic organizations facilitate production and the prompt fulfilment of their contractual obligations towards their foreign partners;
- (c) Planned availability of manpower. Although in general the country experiences a certain degree of scarcity in manpower, it is able to provide the necessary labour for each branch and line of production, thus guaranteeing normal functioning of the enterprise.
- (d) The planned security of production under contract can be achieved in many instances, even for contracts concluded after the national plan has entered into force. Here, too, a flexible attitude exists, the competent authorities being given by law the right to use marginal reserves that are provided for in every plan. ^{19/} It should be stressed that these reserves can be used by Bulgarian organizations for activities under co-operation contracts in Bulgaria or in other countries.
- (e) The sponsoring of such activities by ministries whose economic organizations have negotiated co-operation agreements. ^{20/} Thus it is their duty to take the necessary economic and organizational measures and facilities and to direct and control the related economic activities so as to create normal conditions for the fulfilment of the contractual obligations of Bulgarian enterprises towards their foreign partners.

^{19/} Article 9.2 of the Regulations, op. cit.

^{20/} Article 10 of the Regulations, op. cit.

20. The purpose of allowing the participation of foreign partners in the activities of a Bulgarian economic organization under the provisions of a co-operation agreement has been generally specified by the respective legislation. 21/ Such participation is directed to:

- raising the productivity of labour of the enterprise where the contractual activities are to take place;
- improving the management of production;
- introducing new technologies;
- organizing an appropriate control over the quality of the goods produced;
- co-operating in the exports of the articles produced.

These requirements determine the economic organizations' investment policies and output programme both in the country and abroad. The competent body checks these requirements when examining proposals for co-operation, whether this co-operation is to take place inside or outside Bulgaria. 22/

21. The conditions for foreign participation in the activities of a Bulgarian economic organization reflecting - in general - the contribution of the foreign partner to the above-mentioned purposes, are also defined with the proviso that the existence of only one such condition is sufficient for the acceptance of the contract. 23/ As practical experience gradually suggests new forms of co-operation, the competent body may also authorize the conclusion of a contract in other cases by virtue of the special provisions in the legislative acts. 24/

22. The contribution of a partner shall be assessed according to the provisions of the actual contract. For instance, a Bulgarian economic organization may seek co-operation with a foreign company in order to cut down expenditures for raw and other materials, fuel or labour, or to improve the quality of production. An indication of the new expenditure norms can prove these intentions. Most often, volume indices are set down in the contract since value indices might become unreliable with price changes.

23. The contracting parties may agree that the positive economic effect achieved in co-operation shall be divided into various proportions, usually reflecting the relative contributions of the partners to the achievement of this effect. A part of this effect might be left at the disposal of the foreign company for a longer or shorter period of time. This form of sharing in the results can be used in activities both in and outside Bulgaria, depending on the agreement between the partners. From the Bulgarian legal point of view, it would be erroneous to identify the economic effect of such co-operation with the profit of a joint-stock company; this may be mentioned explicitly in the co-operation contract.

21/ Article 5.1 of Decree No. 1196, op. cit.

22/ Article 4 of Decree No. 1196, op. cit.

23/ Article 13 of the Regulations, op. cit.

24/ Articles 4 and 5 of Decree No. 1196, op. cit., and 12 and 13 of the Regulations, op. cit.

The Bulgarian practice approaches the foreign partner's share in the results of co-operation as a kind of premium or stimulation for particular efforts made by him so that certain results could be reached under the contract.

24. In the run of the co-operation contract there may be changes in the price of goods and services, producing either additional gains or unforeseen losses. According to the Bulgarian standpoint in these matters, it should be logical for the foreign partner to receive his share of the higher rate of profit resulting from rising prices or from other beneficial factors, even without having made a personal contribution to them, in cases where he has also assumed the obligation to bear the risk of eventual loss. An agreement to this end between the contracting parties should make this possible.

25. After assessing the contribution of the foreign partner to the realization of definite results, the partners should also define the size of the economic effect due to this partner, the conditions in which the economic effect shall be realized, and the payments of their reciprocal obligations effectuated. Payment may be made "totally or in part in goods or services, mutually supplied or in means resulting from the fulfilment of the agreement". 25/

26. The payments of mutual obligations and share in gains accruing to each partner can be effectuated in various ways, illustrated by the following examples:

(a) A domestic or foreign trade organization may be charged by the partners to sell the goods or services and hand over the proceeds of such sales after deducting the marketing expenses and commission;

(b) A partner may have no interest in receiving the products of the joint venture in payments or may need only a small part of them. He may then charge the other partner to act as a commission agent for the sale of the whole production, or the larger part of it, and to remunerate him in some other way. Thus, by using the experience and salesmanship of the other partner, the producer will be able to solve the marketing problem;

(c) Long-term supplies and services at fixed prices are also a way to effectuate payments especially to foreign partners with business and market experience but lacking raw materials, labour, equipment or financial means. In this case, the said partner would have a definite interest in being supplied with high quality and competitive goods, produced by a foreign partner, and could be expected to contribute to this to the best of his abilities. The interest of the producing partner in these cases is mostly linked with the saving of time and money for starting a new production, or developing the yet untapped resources, and increasing the export capacity;

(d) The setting up of joint enterprises outside the territory of Bulgaria allows both parties to sell jointly the goods produced on the world market, regardless of which party organizes the production, and to share the gains;

(e) Other forms could also be applied for distributing the economic effect achieved by one of the partners. One partner, for example, can compensate the other by making certain deliveries in his stead, or by doing some work or

service for a third organization which is not a party to the co-operation contract. In general, the forms for settling mutual obligations may be of great variety, depending on circumstances and conditions agreed upon.

27. The following method for arranging payments between Bulgarian economic organizations and their foreign partners is often used:

- the contracts usually envisage whole or partial crediting against the cost of the equipment supplied, the licence received, documentation, technical assistance, etc.;
- the banks of the contracting parties open accounts that reflect the amount of mutual supplies or services;
- the remainder is settled at the end of a given period of time through additional supplies on the part of the debtor or by payment in cash, or is deferred to the following accounting period.

However, this method may be combined with direct payments in cash of specific transactions such as advance payments, payment of documentation, technical assistance, etc. In other cases the parties agree that payments in goods should begin after the new enterprise has been put into operation. Sometimes, prior to this term, payments take the form of supplies of other goods which the partner might be interested in, etc.

28. There may also be three-cornered or multilateral co-operation agreements. This is frequently the case with general co-operation agreements between large western companies and Bulgarian economic or foreign trade organizations. In such cases the general agreement incorporates a number of production enterprises with different fields of activity. Then each of these specialized production organizations of one of the parties to the general agreement enters into concrete contractual relations with the corresponding specialized production organizations of the other contractual party. Usually the output of one of these specialized organizations is intended to meet the needs of the other organization. In some cases production may not be of interest to the respective foreign partner, and some other enterprise which is not party to the concrete agreement or contract may purchase it. If such an enterprise is incorporated into a Bulgarian association or some western concern, it would not be difficult to make the necessary payments or financial arrangements through the respective Bulgarian or foreign group - parties to the general agreement. Such provisions are common in the general agreements concluded in 1974 and the beginning of 1975 between Bulgarian economic and foreign trade organizations, on the one hand, and large western economic enterprises on the other. Some of these arrangements are already in operation and yield good results. This also applies to activities organized by Bulgarian economic organizations in foreign countries, including developing countries.

29. The possibilities for agreeing upon various forms of payments and profit arrangements as offered by the Bulgarian legislation is designed to avoid hampering the initiatives of Bulgarian and foreign parties who might be interested in expanding industrial co-operation. Being a modern system of legal regulations, the "Bulgarian approach" might be of interest to other countries as well since, without denouncing the conventional forms of international trade, it suggests new possibilities and facilities to interested parties from countries with different social systems. For countries that do not insist on the conventional forms of direct investments, this approach might prove to be a convenient form in carrying

out economic relations with other countries. It might be of particular appeal to firms from both the developing countries and the developed market economy countries because it guarantees equality of interests and flexible forms for achieving material gains in spite of the social differences.

Problems and difficulties in expanding industrial co-operation with other countries

30. Most of the difficulties hampering trade expansion between countries also obstruct the development of international industrial co-operation. These general difficulties can be listed as follows:

- (a) Discriminatory measures in some countries applied in trade with certain countries and certain goods - customs or other administrative restrictions, such as high tariffs and duties, quantitative restrictions on imports, export restrictions, and various special requirements, formalities and instructions with regard to some business transactions;
- (b) Harder export and import financial conditions, required to be fulfilled by certain countries such as, requirements for payment terms, etc.;
- (c) Frequent changes in the prices of some manufactured goods or raw materials hindering the smooth running of long-term arrangements between partners and the planning of certain productions and activities.

31. There are also specific obstacles and difficulties hampering the development of international industrial co-operation:

- (a) In some cases the partners underestimate the important role that international industrial co-operation can play in the development of international trade, in solving problems to which a solution cannot be found through conventional forms of trade.
- (b) Some difficulties result from different concepts, in different countries or in different business circles only, as to the essence and the objectives of industrial co-operation with other countries. In Bulgaria these objectives are formulated in a normative way.
- (c) In almost all countries outside the CMEA there exist no legislative arrangements for international industrial co-operation; no favourable prerequisites are created in an administrative way with a view to expanding that sort of activity.
- (d) In a number of countries and in some business circles, there exist psychological barriers, fear of competition if technologies and technical assistance were offered, etc. In negotiations with partners from countries with different social systems this leads to requests for unjustified requirements and guarantees.

(e) The lack of information is one of the most serious problems. In a number of foreign countries the economic possibilities and interests of other countries, and those of Bulgaria in particular, remain unknown. 26/ One way to remedy this is offered by the bureaux for representation and commercial brokerage in Bulgaria. These are specialized foreign trade enterprises that represent independent juridical persons, the object of their activity being commercial brokerage and other similar forms of representation in international trade. 27/ The fundamental normatively formulated working principle of the bureaux for representation and commercial brokerage is that they should not undertake representation of competitive firms. More than 600 big foreign firms are represented in Bulgaria by the bureaux in question. A number of projects for industrial co-operation were put forth and carried out with the active participation of these bureaux. The firms from the developing countries utilize this facility in very rare cases, while actually it is these very firms that need intermediary units in order to establish the first contacts or to intensify their transactions with Bulgaria.

(f) Technical differences between the standards of different countries and different methods of preparing documentation, proposals and offers also create difficulties for industrial co-operation projects. The specialized international organizations, should, therefore, accelerate their efforts to overcome this obstacle.

(g) In some cases the joint commissions established under intergovernmental agreements for economic, industrial and technical co-operation could be made more effective by involving representatives of business circles, banks and other organizations that are directly interested in industrial co-operation.

(h) Small and medium-sized foreign enterprises cannot participate actively in international industrial co-operation. Establishment of contacts, building up of a system for gathering information, working out of proposals and offers, require considerable sums of money, especially when it comes to larger projects. Smaller firms are not in a position to bear such expenses, and forms of co-ordination and unification of their efforts should be found, in order to make them equal competitors to the big concerns and firms. Socialist and other countries are interested in establishing co-operation with such small and average firms that have technical experience and rights on some original and effective production methods.

(i) Most of the firms from the developing countries are not well-known in Bulgaria. These difficulties could be overcome through a more active and concrete work of the joint commissions under the agreements for economic co-operation, a better use of possibilities offered to these firms represented in Bulgaria, and an accelerated exchange of information in both directions.

26/ Bulgaria issues regular publications of development plans for different economic branches and comprehensive reports on the implementation of these plans.

27/ The bureaux for representation and commercial agencies were established under Decree No. 289 of the Council of Ministers of 3 July 1970, published in the State Gazette, No. 54 of 10 July 1970. Thirteen such bureaux exist in Bulgaria.

(j) Restrictions of the right to export and market goods that are the object of the contract, are an important obstacle to industrial co-operation. Some foreign firms, for example, do not agree that the socialist partner should be free to export the jointly produced goods to other socialist countries. This is contrary to the principle of specialization which is widely accepted between CMEA member States, offering more possibilities for applying the most modern and highly effective technologies and equipment to the maximum effect. Furthermore the geographic proximity, the excellent trade and other relations of Bulgarian economic organizations, for example with big countries in the Near and Middle East and in Africa, are thus forgone by foreign partners.

(k) The international organizations have, as yet, been insufficiently effective in eliminating obstacles to or promoting favourable conditions for the further expansion of international economic relations.

Co-operation with other socialist and developed market economy countries as a factor for promoting industrial co-operation with the developing countries

32. Bulgaria develops very active trade with the socialist countries. For 15 years, the volume of trade with the other socialist countries has increased more than four times, which is to a large extent due to integration, and to the constantly expanding co-operation with the socialist countries. A large number of the Bulgarian producers and enterprises are engaged in long-term industrial co-operation contracts with enterprises of the other socialist countries. In implementation of the Comprehensive Programme for the further Promotion and Improvement of Socialist Economic Integration among the CMEA member States, and the agreement for industrial co-operation, Bulgaria supplies other socialist countries with industrial works, complete technological lines of machines and equipment, installations, technical assistance, etc. In co-operation with the socialist countries a number of large-scale industrial projects have been built in Bulgaria, the production of which is meant for local needs and for the other socialist countries, as well as for export to non-socialist countries.

33. At the same time Bulgaria and the other socialist countries seek to strengthen and expand mutually advantageous co-operation with the rest of the world. About 100 long-term agreements for industrial co-operation have been concluded between Bulgarian economic enterprises and organizations and firms from countries outside CMEA, of which about 35 per cent pertain to machine-building and metallurgy, 30 per cent to electronics and electrical engineering, 15 per cent to the chemical, petrochemical and pharmaceutical industries, followed by light and food industries, agriculture, tourism, construction, etc.

34. About 30 per cent of the contracts for industrial co-operation are general agreements, establishing the basic principles of co-operation. In these general agreements the subject of co-operation is defined. It may also be that sometimes they contain the programme with concrete items, terms for studying and working out of contracts, general payment and price terms, status of specialists, general regulations for technical assistance, manner of settling contentions, term of co-operation. Because of the complex nature of these general agreements a joint committee is usually established with co-ordinating purpose. Such general agreements have been signed with some of the biggest western concerns as General Electric, ITT, Montedison, Siemens, Brown Boveri, Daimler-Benz, AEG, Hochst, ENI, Lurgi, FMC, Volvo, Creusot Loire, Schweppes, etc. Contracts for specific productions are concluded under the general agreements.

35. The co-operation with the economic organizations of the other socialist countries and a large number of enterprises and firms of developed market economy countries offers favourable possibilities for promoting co-operation with the developing countries.

(a) In the CMEA Comprehensive Programme for socialist economic integration special measures are stipulated for expanding industrial co-operation with the developing countries with a view to supporting their efforts to develop their national economy and to have more active and fair participation in the international division of labour;

(b) The agreements on economic, industrial, scientific and technical co-operation between Bulgaria and a large number of developing countries allow for productions introduced with the assistance of some developed market economy countries to serve as a basis for co-operation with the developing countries, too;

(c) The industrial co-operation with the socialist countries and with the developed market economy countries can also ensure the marketing of certain goods or raw materials in socialist countries as well as in developing countries;

(d) The geographic proximity and good communications between Bulgaria and a large number of the developing countries in Asia and Africa favour the advantageous marketing of some goods, produced as a result of co-operation agreements;

(e) The technologies and the documentation received under the contracts can be offered, if agreed upon with the other contracting party, to the developing countries on favourable, mutually advantageous conditions.

As the industrial co-operation of Bulgaria with the other socialist countries and the developed market economy countries develops, more favourable conditions will be created for the promotion of the industrial co-operation of Bulgaria and the developing countries. Bulgaria has a great variety of resources but very few of them are rich enough to support large-scale industries based on the latest scientific and technical achievements. Therefore for these industries Bulgaria could seek a constant supply of raw materials, semi-manufactured goods, materials, etc. from the developing countries under co-operation agreements.

Experience and prospects for development of industrial co-operation between Bulgaria and the developing countries

36. For the time being, international industrial co-operation with the developing countries is comparatively limited, being a new form of international relations with these countries. Together with the already mentioned obstacles and difficulties that hamper the development of industrial co-operation, the still modest share of these countries in the foreign trade of Bulgaria should also be mentioned, in spite of the fact that the volume of trade is rapidly growing in absolute terms. Industrial co-operation with these countries is based on principles of equality in rights and mutual benefit, and is of a long-term character. It contains in the majority of cases some specific elements like the technical assistance rendered by Bulgarian specialists, the training of local specialists, which are very relevant to the developing countries, bearing in mind their acute needs in qualified specialists. In each one of countries like the Libyan Arab Republic, Algeria and some others, at present some 700 to 800 Bulgarian specialists are active. Another characteristic feature is that at present co-operation tends to be concentrated in the fields of construction and agriculture in the developing countries.

37. The bilateral intergovernmental agreements signed between Bulgaria and the developing countries comprise a considerable number of economic activities and forms of co-operation including:

- joint construction or supply of industrial works, joint ventures included;
- rendering technical assistance in a number of economic branches, such as agriculture, mining, transport and communications, heavy and light processing industries, public health, culture, art, sports, etc.;
- survey of natural resources, working out of projects for construction and exploitation of enterprises;
- training of specialists in Bulgaria and abroad in the field of economy and production.

38. A review of actual examples of industrial co-operation between Bulgarian economic organizations and organizations and firms of developing countries illustrates the tendencies and prospects for the further development in this field.

(a) The Bulgarian-Indian Joint Venture "Curvel" was established for organizing the production and marketing of gamma-globulin and albumen in 1967, in New Delhi. The blue-prints for construction and technology were designed in Bulgaria. Some of the equipment was also Bulgarian, some was supplied by western, mostly French, firms. Highly qualified Bulgarian specialists care for the application of industrial technology and train a number of local specialists. Production satisfies to a large extent the needs of the two countries and provides resources for export, too.

(b) The Bulgarian-Nigerian Joint Venture "Globe Fish Industry" was founded in 1967, in Lagos, with a 43 per cent Bulgarian participation. Its activity consists in fishing (with Bulgarian trawlers) and marketing the catch in Nigeria. In several years the company succeeded in building up a wide marketing network, the quantities of fish constantly increasing. At present "Globe Fish Industry" satisfies a great part of the demand on the Nigerian market.

(c) Also in 1967, the "Vinyl Coting" joint stock company was established in Singapore, with the participation of Bulgarian, British and local firms, for the production and marketing of artificial leather.

(d) In the period between 1965 and 1968, joint companies were founded in Lebanon, Kuwait, Sudan, the Libyan Arab Republic, Algeria and Morocco, whose purpose was farming, assembly and sale of Bulgarian machines, construction, trade, marketing of Bulgarian machines, construction, banking and insurance and other economic activities. Gradually, Bulgarian participation with capital in some of these companies was transferred to local organizations and firms, but it is still present in most of the companies.

(e) In some African countries enterprises were established during the past years for agricultural products, fishing and fish processing, producing tropical wood, etc. Bulgarian participation in these joint ventures was gradually transferred to the local partners and the payment for this participation was divided into long-term instalments.

(f) Bulgarian economic organizations have built a large number of projects in many countries: in Tunisia - phosphate mines, mines for non-ferrous metals, ore-dressing plants, water improvement installations; research in the field of construction; in Algeria - a textile plant and tanning factory; in Egypt - a ferrocilin plant; in Syria - a tobacco factory; in Iraq - canning factories; in India - 14 complete projects - canning factories, a sulphuric acid plant, a gamma-globulin factory, a food plant, and ore-dressing plants. In Tunisia, Bulgarian architects and constructors built an Olympic sports complex. Our architects have also participated in the urbanization of towns in the Lebanon, Afghanistan, Ethiopia, Tunisia, Ghana and other countries. Thus, in Syria were built a silo, port installations, airports, a water-power system, a dam, and an irrigation system; in Iraq - highways, an airport, a sewerage system (in Baghdad), etc.; in the Libyan Arab Republic - urbanization work, sports grounds, health facilities, a water-supply system, an airport, etc.; in Nigeria (Lagos) - a National Theatre.

39. Interesting possibilities exist for the development of trilateral co-operation among Bulgarian economic organizations and firms and enterprises from the developing and the developed market economy countries. Bulgaria has accumulated considerable experience in supplying, as a general contractor, industrial works to a number of countries, such as Algeria, Cuba, Egypt, Hungary, India, Iraq, Lebanon, the Libyan Arab Republic, Mongolia, Poland, People's Democratic Republic of Korea, Syria, the USSR, countries in Latin America, etc. Firms of developed market economy countries participate as subcontractors. In that way was organized the construction of industrial works or the export of complete production lines for pectin and fruit juice; milk, textile and leather enterprises, plants for tobacco processing, chemical plants, plants for calcium carbide and ferrous alloys; brick and tin factories and other enterprises of the food and refrigeration industry; greenhouses, plants for prefabricated production, etc.. On the other hand, together with western firms, Bulgarian enterprises participate as subcontractors in the construction of chemical and petrochemical industrial works, and in the survey, design and construction in the mining industries. Such is the case, for example, of the construction of a large refinery in the Libyan Arab Republic, jointly with an Italian company with which more co-operation is being envisaged for the future. Many other forms can also be mentioned, such as joint participation in auctions, participation in the construction of industrial works through joint ventures, in the assembly work in engineering, or marketing only. It happens sometimes that developing countries, rich in resources, might require the construction of large industrial works that surpass the capacity of a given enterprise of a socialist or developed market economy country. These cases favour multilateral co-operation, which frequently involves bank and credit institutes of the socialist and western countries.

40. The real possibilities for the development of the industrial co-operation of Bulgaria with the developing countries, are not fully used yet for a number of reasons:

- (a) a number of western countries have wide and traditional economic relations with the developing countries.
- (b) the opportunities offered by Bulgaria are still not well known to the business circles abroad.
- (c) the economic and trade policy of some countries does not contribute to promoting economic co-operation policies based on full equality of the contracting parties, with no discrimination whatsoever, and on the respect for the mutual and specific interests of partners and faithful implementation of the contract commitments as to the quality of equipment, technologies, etc.

Prospects for industrial co-operation

41. The Bulgarian economic organizations are interested in further co-operation with the developing countries. In the years to come major problems of world economic development will have to be solved with the direct and active participation of the developing countries.

42. Following this general approach the Bulgarian economic organizations show interest in independent or joint participation with foreign firms and enterprises in the construction, equipment and also in the joint exploitation of the projects in the developing countries concerned with:

- power plants and electrical equipment, installations, stations, etc.;
- dam lakes, reservoirs, hydrotechnical equipment, irrigation and drainage systems, water supply and sewerage, purification of water, soil and air;
- silos, processing factories of the light and food industries;
- industrial construction in the field of petroleum processing, chemistry, pharmacy, textile industry, metallurgy, etc.;
- geological, surveying and drilling; design, construction and putting into operation of ore-dressing plants and factories;
- construction of towns and villages, residential areas, education establishments, industrial buildings and installations, health and tourist establishments, sports facilities, stadia, exhibition halls, reservoirs, highways, railways, airfields, storage sheds, warehouse services, gasoline stations, etc..

43. From the Bulgarian side, the prospects for developing industrial co-operation with countries outside the CMEA area in each industrial branch are determined by the general tendencies and objectives set out in the plans of the economic organizations for development by branches (see annex II). As can be seen the developing countries can very well contribute to achieving the objectives intended to be attained through industrial co-operation. In fact negotiations are already under way, and projects are being considered, concerning the organizing, with several developing countries, particularly in the Near and Middle East, the production of industrial goods pertaining to the motor, chemical, textile and other industries.

44. In a general way it can be assumed that future industrial co-operation between countries with different social systems will continue to develop in much the same manner as trade will develop. However it should be kept in mind that currency devaluation and revaluation, inflation, insecurity of payment arrangements with developed market economy countries and the instability of prices might adversely influence, to a larger or smaller degree, the prospects for industrial co-operation between Bulgarian enterprises and foreign firms.

45. As to developing countries, further possibilities for industrial co-operation will most likely be founded on the most favourable and mutually advantageous utilization of Bulgarian experience in particular economic branches and more specifically in agriculture, mining and exploitation of resources, in construction, and in some sectors of the processing industry, as mentioned above. Co-operation in the field of technical assistance, training of specialists, working out and running of projects, as well as still more active co-operation in international trade, will continue in the future.

46. Industrial co-operation should be stimulated through measures undertaken by the governments of the interested countries, aimed at the creation of more favourable conditions. The measures and recommendations of the United Nations family of organizations will have even greater importance for facilitating transactions within the framework of industrial co-operation between countries with different social systems. Owing to the dynamic nature of economic and technical relations between enterprises of these countries it is hard to foresee the final and general forms of co-operation. The fact that the juridical form has to be agreed upon in each particular case protects the interests of the partners, provided that it does not contradict national regulations. In this respect the new Bulgarian legislation represents a dynamic element in international industrial co-operation by offering the partners a great variety of initiatives.

Conclusion

47. A growing number of States and governments are becoming convinced that co-operation based on equity and goodwill, and consideration for the partner's interests, can create conditions for the maximum co-ordination and utilization of resources. Present-day political and economic relations between States, and in particular the favourable climate created in connexion with the Conference on Security and Co-operation in Europe, will bring about new opportunities for development of this contemporary form of international economic relations.

48. Within a short period of time, Bulgaria has recorded considerable success in the reconstruction and perfection of its society and national economy, in accordance with long-term development programmes and programmes aimed at raising the people's living standards. These achievements have made the country an equal and desired partner in international economic co-operation. Bulgaria's experience in international industrial co-operation with foreign countries, including those with different economic and social systems, could afford a good basis for further application and expansion of these forms of co-operation in its international economic relations. At the same time, this experience could become an example for other countries which consider that it could be adapted to their purposes and interests in the process of international industrial co-operation in accelerating economic development.

Annex I

DECREE NO. 1196

The State Council of the People's Republic of Bulgaria, in accordance with Article 94, Item 2, Paragraph 2 of the Constitution of the People's Republic of Bulgaria, issues the following

DECREE NO. 1196

of the State Council of the People's Republic of Bulgaria on economic, industrial and technological co-operation with foreign juridical and physical persons.

Art.1 (1) The development of economic, industrial and technical co-operation between Bulgarian economic organizations and foreign juridical and physical persons is encouraged in the People's Republic of Bulgaria.

(2) Co-operation is realized by creating favourable planning, financial, credit, customs and other prerequisites and conditions for this activity and by guaranteeing the fulfilment of contractual obligations, assumed by a Bulgarian economic organization and approved by the Bulgarian side in accordance with existing legislation.

Art.2 (1) The economic, industrial and technological co-operation, subject to this Decree, is carried out on the basis of agreements between Bulgarian economic organizations and foreign juridical and physical persons for lasting joint activity, to the mutual advantage and interest in the final results of this co-operation. Payments between the parties are made totally or in part in goods or services mutually supplied or in means resulting from the fulfilment of the agreement.

(2) Activities under the agreement may be carried out in the People's Republic of Bulgaria and in other countries as well.

Art.3. Co-operation agreements are concluded for the purpose of developing new, and modernizing existing, production capacities, introducing new products by applying the most perfect technologies and the latest scientific and technological achievements, improving the effectiveness and organization of production, raising labour productivity and the quality of production, meeting more fully the needs of the country, expanding its export potential and making rational use of the country's material and labour resources, in accordance with the agreement.

Art.4 (1) Co-operation agreements are concluded, on the Bulgarian side, by a State economic organization or by the respective foreign trade enterprise, after authorization from the competent authorities.

(2) When the activity under the agreement takes place in the People's Republic of Bulgaria, it is subject to Bulgarian legislation. When it takes place abroad, it is subject to the legislation as determined by the agreement.

(3) Differences between the parties are examined by the body determined under the agreement.

Art.5 (1) The agreement may provide for the participation of a foreign juridical or physical person in undertakings of Bulgarian economic organizations aimed at raising labour productivity, introducing new technologies and productions and checking the quality of products, as well as selling products on the world market.

(2) In the cases of the preceding paragraph, the foreign juridical or physical persons may obtain part of the realized profit in accordance with their concrete contribution, and under the conditions specified by the Regulations governing the application of this Decree.

Art.6. The Council of Ministers shall issue regulations on the application of this Decree.

The Prime Minister is entrusted with the application of this Decree.

Issued at Sofia on 12 June 1974 and bearing the State Seal.

President of the State Council of the People's Republic of Bulgaria:
(signed) T. Zhivkov

Secretary of the State Council of the People's Republic of Bulgaria:
(signed) M. Minchev

Annex II

Prospects for industrial co-operation, by branches

The general guidelines for the further development of industrial co-operation with foreign firms, as well as some of the qualitative objectives to be achieved thereby, are being elaborated in Bulgaria mostly through plans for individual industrial branches:

(a) Further industrial co-operation with firms and organizations of foreign countries should allow for the achievement of the following objectives in machine building and metallurgy:

- improvement of conventional metal-cutting machines; increase in the volume and types of aggregate and specialized machines and automatic lines; increase in the range and the volume of production of the basic metal-cutting machines with programme control and of automatic technological lines;
- building up mechanical handling equipment or machines for processing loads in pallets and packages; development of the production of machines for warehouses, machines for processing containers, universal machines, etc.;
- building up new agricultural machines and machines for the food industry, such as complete lines for automated cultivation, harvesting and processing of production on the basis of most up-to-date technologies, the applied labour reduced to a minimum;

(b) In the field of electronics and electrical engineering industrial co-operation should favour:

- further introduction of integral circuits in the production of computers;
- production and development of means and devices for automation of the production processes in electronics and electrical engineering;
- development of industrial electrical engineering;
- production of large-capacity equipment for satisfying the needs of processing energy sources;
- further development of the production of radioelectronic and electronic articles as well as electric appliances for everyday use;

(c) Industrial co-operation with other countries in chemical industry should be closely related to:

- expansion of the oil-processing and petrochemical industry with a view to creating a solid basis for energetics and for the production of basic petrochemical products like polymers, plastics, chemical fibres, synthetic rubber, resins, gums, etc.;
- production of synthetic chemical products for the light, chemical and pharmaceutical industries;
- expansion of the cellulose and paper industry;

- increasing the production of mineral fertilizers and pest control chemical products;

(d) In the field of light industry co-operation should be used to:

- ensure volume and variety of goods that would satisfy the rational norms of supply of certain goods and articles;
- introduce highly productive aggregates in the existing and the new enterprises including the latest achievements of technological progress; improve the technological processes, the organization and management of production for raising the general effectiveness of this branch;
- favour the most rational use of raw materials by introducing the production of lighter articles without impairment of quality;

(e) In the field of agriculture industrial co-operation is to be co-ordinated on the following lines:

- setting agriculture on an industrial basis;
- establishment of optimal size and technical structure of units with a view to the most thorough application of the achievements of the scientific and technical revolution in agricultural production;
- introducing new methods for increasing production volume, improving its quality, raising labour productivity and diversifying final agricultural products;

(f) In the field of construction, transport and tourism, new possibilities for industrial co-operation are emerging both in the country and abroad:

- in the introduction of new methods and materials on the basis of the latest scientific and technical achievements with a view to reducing the labour applied in certain productions in view of intensifying and shortening the terms in construction and increasing its effectiveness; further expansion of construction work abroad in co-operation with local firms and enterprises, in view to provide constant supply of articles in demand;
- in the modernization of the road network and communication services, development of road, railway and water transport for making best use of the favourable geographic situation of the country with a view to developing economic relations with other countries;
- in further development of international tourism, creating additional facilities for use all the year round, and expansion of medical tourism.

21 January 1976
ENGLISH ONLY

International specialization in industrial production and its
impact on the expansion of trade and economic relations between
the socialist countries of Eastern Europe and the developing countries

Study by the UNCTAD secretariat

CONTENTS

	<u>Paragraphs</u>
Introduction	1 - 11
I. Survey of trends in industrial specialization	12 - 18
II. Policy issues and criteria	19 - 34
III. Conclusions	35 - 37

The designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

INTRODUCTION

1. It seems by now generally recognized that international specialization in industrial production - whereby one partner assigns a certain part of industrial production to meet the needs of the other partner, which secures a durable market for such production - might play an important part both in expanding trade between the developing countries and the socialist countries of Eastern Europe, and in changing the structure of such trade so that a new division of labour between these two groups of countries might emerge. Reflecting this general approach ^{1/} Governments, at the third session of the Conference invited the Secretary-General of UNCTAD to study ways and means of expanding the existing opportunities for mutually advantageous international specialization between countries having different economic and social systems which might help to increase the volume of their mutual trade, taking into consideration the interests of developing countries. ^{2/} Elaborating on the same issue, the Trade and Development Board, at its fourteenth session, recommended among topics for further consideration, the "identification of future possibilities for economic co-operation in specific areas, with a view to developing geographically larger co-operation and specialization schemes". ^{3/}
2. Responding to these mandates and recommendations, the UNCTAD secretariat has prepared and submitted to the Conference and the Trade and Development Board several studies dealing with various aspects of the general economic and policy issues pertaining to the achievement of complementary economic structures, as well as with some opportunities for trade-creating industrial specialization between the socialist countries of Eastern Europe and the developing countries. ^{4/}
3. The present paper has a two-fold purpose. It aims, first, at evaluating the present weight, impact and scope of industrial specialization arrangements which have emerged in economic relations between the socialist countries of Eastern Europe and at assessing the trends and prospects for future developments in this field. Secondly, it aims at contributing to the governmental and international promotional efforts which would appear to be justified if the possibilities offered by this method of creating new trade flows between the two groups of countries are to be fully exploited. The discussion of some policy issues and criteria may be of relevance in this connexion.
4. In one of the earlier papers of the secretariat ^{5/}, it was contended that the "inadequate complementarity of ... production patterns" was a limiting factor, among others, for the further expansion of trade between the socialist countries of

^{1/} Proceedings of the United Nations Conference on Trade and Development, vol.I, Final Act and Report, annex A.III.2; Conference resolution 15 (II), part II, paragraph 11; conclusions by the President at first part of the twelfth session of the Trade and Development Board (A/8715/Rcv.1, para.233 et.seq.).

^{2/} Conference resolution 53 (III), part VI, sub-paragraph (a).

^{3/} Agreed conclusion 112 (XV), paragraph 10 (c).

^{4/} "Expansion of trade through the promotion of complementary economic structures" (TD/125); "Expansion of trade through the promotion of complementary economic structures" a case study on Hungary (TD/B/391); "Trade aspects of international specialization between socialist and developing countries (Case study on the Czechoslovak wood-working industries" (TD/B/451).

^{5/} TD/125, op.cit., para. 49.

Eastern Europe and the developing countries. The elimination of this impediment takes on particular importance with the increasingly felt desire in both groups of countries to step up exports to each other's markets. Not only do the developing countries consider the socialist countries of Eastern Europe a particularly promising area for the future expansion of their exports, but the socialist countries of Eastern Europe have also shown considerable interest in the developing countries' markets as outlets for their growing exports of machinery and some other industrial goods. However there are grounds for some apprehension that the materialization of these intentions will produce results that are not in line with real opportunities if the developing countries remain in their role of primary product suppliers. As has already been stated elsewhere, ^{6/} the socialist countries of Eastern Europe occupy in international markets for commodities a position which differs in several aspects from that of the Western European and some of the other industrialized countries. When assessing the future development of trade, therefore, it must be borne in mind that the traditional pattern of developing countries' exports of primary products to the socialist countries of Eastern Europe may be able to warrant only moderate opportunities for accelerated expansion, once they have attained a certain level. Therefore, the search for concrete new opportunities in economic fields and industrial branches to have hitherto not formed a major part of trade is imperative if new impetus for trade expansion is to be imparted to trade between these two groups of countries.

5. The creation of conditions favourable to the fuller utilization of the possibilities which might be offered by closer co-operation with the socialist countries of Eastern Europe would appear to be an urgent task for the developing countries, which aspire to a new position in the international division of labour. The role of the socialist countries of Eastern Europe in the world economy is constantly acquiring importance, owing to the growing potential of these countries in respect of both their productive and their absorptive capacities. Accordingly, the solution of world economic problems, especially the problems of the restructuring of the world economy, must be considered as hardly possible without their participation.

6. Two recently intensified trends in the international relations of the socialist countries of Eastern Europe are of particular relevance in assessing the future prospects for their trade with the developing countries. The socialist countries of Eastern Europe are at present involved in comprehensive activities

^{6/} See for example, and among others, "Review of trends and prospects in trade and economic relations between socialist countries of Eastern Europe and African countries", TD/B/505/Supp.1, paras. 138-139, which state that the socialist countries of Eastern Europe "have an agricultural sector that can supply most of their needs as regards agricultural raw materials and food", and that the "CMEA area as a whole is more self-sufficient in primary products than any other group of countries". Therefore, and in spite of the fact that "some of the socialist countries of Eastern Europe consider themselves highly dependent on imports of certain raw materials...", on the whole "the growth of imports of mineral and agricultural raw materials will not, in all probability, represent the most dynamic segment of trade ...".

leading to the integration of their economic structures within the Council for Mutual Economic Assistance (CMEA), especially through industrial specialization and co-operation. The achievements recorded so far and, even more, those envisaged for the future, can be expected to have considerable spill-over effects on trade with the developing countries. Furthermore, new avenues for co-operation are gradually, but unremittingly, being opened up in East-West relations following the progress in political normalization, which cannot but produce effects on the developing countries' trade. The question of how to include the developing countries in multilateral co-operation, and of how to promote the accelerated expansion of these countries, are issues that are gaining importance with both governments and international organizations.

7. The developing countries themselves have undergone dynamic changes in recent years. The emergence of a group of developing countries with rich resources, both material and financial, the initiatives to create integrated areas among countries of the developing world, the progress of industrialization in some developing countries - all these have already produced an impact on international economic relations. Also, the approaches recently evolved by the international community towards establishing a new international division of labour which would be more just and equitable for the developing countries enhance the importance and the promise of relations between the socialist countries and the developing countries. The role of international co-operation in creating favourable external conditions and in actively assisting the developing countries in their efforts to accelerate their economic development - a role which has been accentuated of late - ^{7/} coincides with the tendency of the socialist countries to base their relations with the developing countries on intensified and comprehensive co-operation in various fields, with particular reference to furthering the industrialization, independence and over-all development of these countries. ^{8/} Consequently, the approach to the question of developing a new division of labour through specialization will be more in tune with prevailing trends in the international community if trade expansion is envisaged from the standpoint of its contribution to the development of the developing countries in the light of their own needs, criteria and objectives.

8. Whenever the exchange of goods among countries displays, over a period of time, a more or less stable structure, it can be said that a certain form of international specialization is apparent. However, when countries aspire to change the existing patterns, and to create new possibilities for trade, practice shows that it is essential to devise policies on both the national and the international levels. Purely commercial methods have to be complemented by wide-ranging policies that extend beyond trade into the production field and even influence investment decisions. The socialist countries of Eastern Europe and the developing countries have already gone a long way in this direction. The review and analysis of recent

^{7/} See, in this connexion, the Charter of Economic Rights and Duties of States (General Assembly resolution 3201 (XXIX), article 17).

^{8/} As recurrently stated by the official representatives of the socialist countries of Eastern Europe in their statements in United Nations bodies dealing with economic questions.

trends in the policies and efforts of countries to promote mutual economic relations, reveal a very definite shift towards more complex mechanisms of economic, industrial, technical, financial and other forms of co-operation. ^{9/} In particular, industrial co-operation can be considered as being the main vehicle for transmitting dynamic force from one partner to the other, while at the same time offering an appropriate basis for harmonizing policies and satisfying the interests of the partners involved.

9. In the majority of cases recorded to date, industrial co-operation with the socialist countries of Eastern Europe has meant for the developing countries the creation of new factories or the initiation of new production, with the socialist countries providing assistance in the establishment of the production capacities involved. Industrial specialization provides an additional element to this form of co-operation in that it gears the creation of new industries (or production) explicitly to increased exports. Industrial co-operation and specialization are defined by the socialist countries in much the same way. ^{10/}

10. Although specialization links are in practice established by the respective enterprises, in response to their particular interests and projects, the role of governmental policies, programmes and plans seems to be vitally important in bridging such differences in size, levels of development and socio-economic systems as may exist between the socialist countries of Eastern Europe and the developing countries, especially since the creation of a new division of labour presupposes goals that have been jointly agreed upon and requires concerted action to attain these goals, all of which opens up vast scope for international negotiation.

11. The relatively recent origin of economic links between the socialist countries of Eastern Europe and the developing countries, together with the dynamics displayed in the evolution of relations and the emergence in some cases of unforeseen possibilities, indicate that a considerable scope for new initiatives exists in this field.

^{9/} See the recent issues of the annual "Review of trends and policies in trade between countries having different economic and social systems", which provide more detailed information on this evolution in the chapters dealing with trade between the socialist countries of Eastern Europe and the developing countries (TD/112, TD/B/458/Supp.1, TD/B/499/Supp.1 and TD/B/560).

^{10/} For the socialist countries, see in particular: Comprehensive Programme for the further extension and improvement of co-operation and the development of socialist economic integration by the CMEA member-countries (CMEA secretariat, Moscow, 1971) chapter I, sect.1.5 and sect.2.3.

I. SURVEY OF TRENDS IN INDUSTRIAL SPECIALIZATION

12. In its previous report^{11/} on this topic, the secretariat of UNCTAD attempted to identify in broad outline the areas and industrial branches in which a possible convergence of interests exists as regards specialization and the creation of complementary economic structures by partners from the two groups of countries. The case studies prepared approached the same problems from a more detailed and specific standpoint. ^{12/} It was found that the areas in which the socialist countries' plans coincided with what the developing countries have already achieved in the industrial field, or were planning to do in the near future, related broadly to industries producing: ^{13/}

- chemicals, petrochemicals, pharmaceuticals;
- iron and steel products;
- metal manufactures;
- transport equipment and motor vehicles;
- electrical engineering goods;
- household electrical appliances;
- light engineering goods;
- heavy engineering goods;
- textiles and clothing;
- leather goods;
- industrial products utilized in housing and other construction.

13. A review of the factual experience accumulated in recent years concerning the utilization of opportunities for specialization, as identified in the studies prepared by UNCTAD, while confirming the general lines of the previous assessments of production fields which offer possibilities, shows, however, that no particular break-through has been made by the partners in terms of new, striking results or radical shifts in the pattern of traded goods. On the other hand, new specialization-oriented policies and activities have been initiated by enterprises and largely supported by the respective governments, which shows that they are expected to provide additional impetus for trade and development even though the actual results of such efforts are slow to materialize.

14. The existing statistical material on trade between the socialist countries of Eastern Europe and the developing countries unfortunately does not provide a substantial amount of information on the trends leading to, or consequent upon

^{11/} TD/125, chapter II.

^{12/} TD/B/391 and TD/B/451.

^{13/} The industries and products reviewed in this chapter in general coincide with those falling under the definition of "manufactures and semi-manufactures" commonly used by the UNCTAD secretariat. See also footnote 15 below.

specialization arrangements between industrial enterprises. However, it may be observed that the developing countries' exports of industrial manufactured goods have tended to occupy an ever growing share of their trade with the socialist countries of Eastern Europe over the last decade or so. For some developing countries, especially those in Asia, the Middle East and Northern Africa, the socialist countries have become quite important markets for exports of manufactures. Some more information in this respect may be obtained by observing the position of the socialist countries of Eastern Europe in the developing countries' exports of selected goods (or groups of goods) in the production of which the socialist countries have co-operated by providing technical assistance, technology, credits, equipment or actually building factories. The developing countries' exports of the majority of such goods have risen more rapidly to the socialist countries than to other countries. Although no direct causal links can be shown on the basis of the information available between industrial co-operation agreements and these trade developments, it would seem reasonable to say that not all the results can be attributed exclusively to commercial mechanisms and policies, especially in the light of the ever growing number of intergovernmental co-operation agreements.^{14/}

15. There has been little change in the structure of exports by the socialist countries of Eastern Europe to the developing world: the predominance of industrial and, in particular, investment goods and equipment still persists. However, in recent years, some socialist countries of Eastern Europe (in particular the USSR) have started to supply or have increased their supplies of industrial raw and semi-finished materials to several, more industrially advanced, developing countries. Such changes may be an indication of the emergence of a new pattern in their specialization vis-à-vis the developing countries' needs. It must also be noted that regular supplies by the socialist countries of Eastern Europe to some developing countries of component parts and accessories, for assembly in the latter, might produce lasting links of specialization.

16. There appear to be only a limited number of actual cases in which partners have arrived at, or explicitly intended to establish, specialization links in manufacturing industries. ^{15/} Information on these can be obtained from

^{14/} See TD/112, TD/B/458/Supp.1, TD/B/499/Supp.1 and TD/B/560.

^{15/} Complementary structures between the socialist countries of Eastern Europe and the developing countries based on the specialization of the latter in such activities as mining, agriculture and food, and the production of other raw materials, including the first stage of processing, were not taken up in previous studies of the secretariat. The present paper continues this approach, with the particular aim of focusing on problems of industrialization and the diversification of the developing countries' exports through the introduction of products necessitating a higher degree of processing. It should, however, not be overlooked that the socialist countries of Eastern Europe and the developing countries have entered into many agreements on co-operation in the field of primary production, with the aim of creating long-term supplies to the socialist countries of Eastern Europe. For instance, such links have been established between the USSR and Iran and also Afghanistan for production and exports of natural gas; between several socialist countries of Eastern Europe and Iraq, Syria, Egypt, Libya, in respect of crude oil; between Bulgaria, the USSR, Romania and other socialist countries of Eastern Europe, and Guinea, in respect of bauxite; between Hungary and Poland, and Morocco and Tunisia, in respect of phosphates; between Czechoslovakia and Poland and several African and Latin American countries in respect of timber and tropical wood; between the USSR and Egypt in aluminium; between several socialist countries and several African and Latin American countries in respect of non-ferrous metals, ores and concentrates; between the USSR and Somalia in respect of canned food production, etc.

non-statistical sources, mainly concerning the implementation of economic and industrial co-operation agreements, as reported by the partners. Specialization in such cases has mostly been pursued in new industries or in new capacity in existing industries built in co-operation with the socialist countries of Eastern Europe. However, industrial specialization has also taken place in developing countries' industries in the establishment of which the socialist countries did not take part. These cases can be examined within the industrial branches and product groups which were identified above as particularly suitable in this respect (see paragraph 12 above).

(a) In the chemical and allied industries, some socialist countries of Eastern Europe have arranged long-term purchases of petrochemical products, mostly from factories they helped to establish (e.g. the USSR, Czechoslovakia, the German Democratic Republic, Romania and, among others, Afghanistan, Egypt, Libyan Arab Republic, Syrian Arab Republic). In the field of pharmaceuticals, Hungary, the German Democratic Republic and Bulgaria have organized joint ventures with certain developing countries, such as India and Nigeria, supplying the necessary licences and equipment in the production of several new articles (gamma globulin, vitamins), with a view to importing these products for home consumption. Similarly, tyres and tube production in India was increased in co-operation with Czechoslovakia, which is importing part of such production.

(b) The promising prospects of specializing in iron and steel products for the purpose of supplying the socialist countries 16/ have only been taken up in a modest scale as yet. It appears that only the USSR is importing on a more or less regular basis iron and steel products from India, Yugoslavia and Egypt (produced in plants it helped to establish). Some occasional imports into other socialist countries (e.g. Poland) of rolled steel products for railways and of similar, relatively unsophisticated products, from India, Egypt and some other developing countries, point to links which might lead to long-term specialization in the developing countries' iron and steel production for the needs of the socialist countries. Moreover, the German Democratic Republic may envisage importing steel component parts for its building industry from an Algerian factory it has co-operated in establishing. In general, the socialist countries (e.g. the USSR, the German Democratic Republic, Poland and Czechoslovakia) have helped certain developing countries (India, Egypt, Yugoslavia, Algeria, Nigeria) to start or increase their domestic iron and steel production, but the major portion of such production is destined to cover internal demand.

(c) The field of the metal-transforming industries, embracing a wide range of products from simple metal manufactures to engineering and transport equipment, provides an especially suitable area for the developing countries to attempt to bring a structural change in their exports through concentrating production on such goods as spare parts, accessories and similar articles, for supply to the socialist countries of Eastern Europe. The latter countries have already developed this sector considerably and have arrived at a stage which presents a wide range of opportunities for outside partners. Furthermore, it is in these industries that co-operation between the socialist countries of Eastern Europe and the developing countries has been particularly intensive, resulting in a number of projects for

16/ See TD/125, paragraph 26.

the establishment, in the developing countries, of new industries, many of which have already been commissioned and have reached the production stage. 17/ However, specialization agreements as defined in the present paper have involved only the most industrialized and advanced countries of the developing world (Yugoslavia, India, Egypt, Iran and some Latin American countries). A few cases can be cited where the partners organized production-sharing schemes supplying each other with specialized spare parts in approximately equal proportions and assembling them in both countries (Poland and Yugoslavia in car production). 18/ Poland and Egypt have recently negotiated the joint production of small buses and ambulances and agreed upon exports to Poland of several thousands of finished vehicles over a certain period of time. In others, the socialist country partner is still in the initial phase of providing the majority of spare parts to be assembled in the developing countries, only expecting a future return flow of spare parts from the latter (e.g. Poland, Czechoslovakia, Bulgaria in tractor production or small motor vehicles with India, Iran, Egypt, Peru, Mexico, Morocco). Cases in which the socialist countries have secured the market for new products through agreements on specific long-term purchases of goods are somewhat more frequent. For example, the USSR and India have established such links in the trade of surgical instruments, lenses and other optical material, electric motors, simple gears and excavators. The USSR has agreed with Egypt that the latter will supply it regularly on a sub-contracting basis with specific components for motor cars. Also the shipyard in Alexandria, built with the assistance of the USSR, is exporting ships to the USSR. The partners have in several cases explored possibilities for specialization based on factories established in the developing country by a socialist country (Czechoslovakia and India in engineering; 19/ Czechoslovakia, the USSR and Iran in machine tools; Romania and Iran in railway carriages; 20/ the German Democratic Republic and India in electro-mechanical goods). 21/

(d) The convergence of interests with respect to specialization and co-operation has been more visible in the textile industry, where the tendency of the socialist countries of Eastern Europe to shift towards higher-priced textile goods (e.g. Czechoslovakia, Hungary and the German Democratic Republic) has been matched by the developing countries' ability to offer needed manufactured and semi-manufactured goods. The partners have aimed at achieving stable and lasting flows of such goods to the socialist countries' markets, especially in cases where the importing socialist country was ceasing or diminishing its own production thereof (for example the special kinds of cotton semi-manufactures produced in Egypt for the German Democratic Republic). Usually, the socialist

17/ See, in this connexion, the UNCTAD secretariat reports "Review of trends and policies in trade between countries having different economic and social systems" (TD/B/499/Supp.1), paras. 67-70.

18/ Poland and Egypt also envisage a similar arrangement in car production, as soon as mutually acceptable standards for spare parts can be arrived at.

19/ Notably high-pressure boilers.

20/ According to preliminary information, half of the production should be exported regularly to Romania.

21/ E.g. household meters, cables and certain appliances.

countries of Eastern Europe (e.g. Czechoslovakia, the German Democratic Republic, Poland and the USSR) have in these cases supplied the developing countries (Egypt, Iran, Iraq, India) with equipment for the production of the goods required, or have provided technical assistance or technological guidance to the producers whose output was imported.

(e) Similar developments have occurred in other consumer goods industries. Poland is regularly importing from Pakistan (and some other developing countries) shoes which have been produced under the technical guidance of Polish experts, thus ensuring that the product complies with the requirements of the Polish market. Czechoslovakia has for some time been co-operating with the developing countries (India, Iran, Egypt, Ethiopia, Uruguay, among others) in establishing a number of factories in the leather industry, and has arranged with them regular imports of their products, mostly semi-manufactured goods.

17. As stated above (para. 15), the socialist countries of Eastern Europe have also tended to concentrate in their exports to the developing countries on certain groups of products, and such trade flows have taken on a durable nature. This concentration, until recently, did not require new industries to be established in the socialist countries, because existing capacities and lines of production were able with only minor adaptation to satisfy the needs of the developing countries. However, in the past two years some socialist countries of Eastern Europe and some oil-producing developing countries have concluded co-operation agreements for the setting up of factories in the socialist countries, the production of which is destined for the developing countries. Usually, the developing countries concerned have offered to cover part of the financing burden, and have accepted repayment in goods produced by the new plants. An example is the recently negotiated establishment in the USSR of a wood-pulp and paper complex with the financial co-operation of Iran, part of the production being assigned to cover the latter country's needs. 22/

18. The review of cases confirms that co-operation agreements have been a particularly appropriate and promising means of opening up new trade flows as they provide for the setting up of new factories and new lines of production in developing countries with a view to arranging in due course, once the necessary conditions are present, imports into the socialist countries. Furthermore, the repayment in kind of the credits accompanying these projects and supplies of equipment has also had the effect of earmarking new goods for the socialist countries' markets on a long-term basis. In other cases, co-operation and assistance by the socialist countries has been mainly geared to adapting all or part of production in developing countries' factories to the quality and variety requirements of the socialist countries, thus laying the basis for regular supplies. Lastly, some sub-contracting and production-sharing has been organized between the more industrialized developing countries and the socialist countries of Eastern Europe, although in a rather limited number of cases. It should be noted that the search for ways and means of promoting such co-operation continues, and that new combinations are being introduced, especially in the field of joint ventures, mixed companies, participation in common projects, etc.

22/ Other similar cases of a developing country financing the establishment of new production lines in the socialist countries, have been mainly concerned with the primary industry, food in particular (see TD/B/560).

II. POLICY ISSUES AND CRITERIA

19. The fact that the socialist countries' economies are centrally planned and regulated, and the fact that relations with these countries are still a relatively new phenomenon, lends to such relations a specific character which offers to the developing countries a chance to achieve not only physical and quantitative increases in trade, but also certain qualitative results and changes as well. It seems, in particular, possible in this particular sector of world trade to implement, through joint agreements between the partners, certain principles of development and to apply certain criteria with respect to the pattern of trade more easily than in other international relations. A policy aimed at changing the traditional patterns of trade, which might have some appeal to developing countries wishing to attain a new international position in their trade, can in fact be facilitated by co-operation with the socialist countries, which may offer alternative solutions and a greater range of choice.

20. International industrial specialization, as defined in this paper, involves two parties each having a distinct role to play. The decisions and choices involved, therefore, require certain efforts to be made in order to harmonize the goals and interests of the different countries. In negotiating such issues, a comprehensive but internally consistent policy, reflecting development strategies in each of the partner countries, has definite advantages over an ad hoc and unsynchronized approach, since it will permit each country to identify and, if possible, influence the role the other country could play in its national development. As stated earlier (see paragraph 7), it may be expected that the developing countries will increasingly try in their international relations to secure a certain degree of priority for their own development goals, which should thus enable them to determine their role in the international economic process with more autonomy than hitherto.

21. It would appear that no major difficulties are likely in co-operating under such general principles, as the socialist countries of Eastern Europe approach the question of international specialization in such the same manner (see paragraph 7). An analysis of co-operation agreements and their implementation shows that the socialist countries of Eastern Europe have effectively supported the development goals of the developing countries: a considerable proportion of the factories erected or the equipment delivered under co-operation agreements has been devoted to the establishment of "key" industries, which play an important role in that they provide a basis for further industrialization, as well as the general development and export expansion of the recipient country. 23

22. Through such co-operation, the socialist countries of Eastern Europe and the developing countries have in a sense become partners in the promotion of the latter's development process. Since this process consists essentially in a transformation of existing structures, and comprises stages each of which offers different production patterns, it would seem natural to expect that the possibilities for specialization increase as industrialization proceeds, and are subject to more or less rapidly changing circumstances. The partner countries are, therefore, confronted with the question of how to keep in tune with the progress of development in their choice of projects. Through their exports, the socialist countries of Eastern Europe, given their economic potential, seem to be fully capable of playing an important part in practically all stages of development, from

23/ See TD/B/350.

the setting up of essential industries and infrastructure in the early stages, to the establishment of sophisticated industrial plants. It is also important to observe that experience indicates that the socialist countries of Eastern Europe have shown themselves ready to introduce developing countries into areas in which the prospects for specialization may be regarded as favourable. 24/

23. The view that international relations should be shaped in such a way as genuinely to promote the economic growth of the developing countries requires that the socialist countries concentrate in their exports on the goods needed by the developing countries at the particular stage of development they have reached. Although the socialist countries of Eastern Europe, given the present structure of their exports of machinery and equipment, largely comply with the needs of the majority of developing countries, it is particularly worthy of mention that some of the more industrialized developing countries are increasingly requesting the socialist countries to adapt their exports to new requirements, and to establish regular flows of raw materials and semi-manufactures for use by the developing countries in their manufacturing. 25/ Some socialist countries of Eastern Europe have already met these requests, and have moreover expressed their readiness to assist the developing countries in taking up existing idle capacity by placing orders for the manufacture of goods based on materials supplied by the socialist countries. 26/ In particular cases, some developing countries (e.g. India) consider 27/ that imports from the socialist countries of what are known as "wage goods", in particular food, are an important contribution to their development and indirectly influence in a positive manner their ability to export industrial goods. It would seem that the concentration of the socialist countries on exporting these goods on a long-term basis, as well as equipment and machinery, is likely to create the appropriate preconditions for future patterns of specialization.

24. In their attempts to create a new production structure which will make greater use of national factors of production, the developing countries in general may have a preference for setting up industries which generate appreciable direct and, in particular, indirect effects throughout the economy, requiring a large variety of inputs from other branches, and supplying their output to a large number thereof. Consequently, they may tend to specialize with respect to the socialist countries of Eastern Europe in certain goods, the production of which necessitates the indirect involvement of as many industries as possible. The higher the degree of processing of the raw material inputs, the more will the final products respond to this

24/ The agreements, protocols and other documents of the mixed intergovernmental commissions, which specify the fields in which co-operation is to be stimulated and individual projects to be carried out, give ample evidence to this effect (see in particular agreements with India, Egypt, Yugoslavia, Iran and Argentina).

25/ See, in this connexion, the statement of the representative of India at the 434th meeting of the Trade and Development Board (TD/B/SR.434).

26/ See, in particular, the statement by the USSR concerning prospects for the development of its trade and economic co-operation with the developing countries (TD/163).

27/ See document UNCTAD/TSC/25, "Intra-industrial specialization and its impact on trade and economic co-operation between India and the socialist countries of Eastern Europe".

criterion. When defining its policy vis-à-vis specialization, a developing country may also envisage calling upon the assistance of the socialist countries, within the framework of their over-all co-operation, to help in the establishment of harmoniously integrated economic complexes, with a view to creating, at some part of the complex, possibilities for specialization. It goes without saying that in many such cases infrastructural inputs are needed, which can involve the assistance of the socialist countries in setting up infrastructure facilities. The experience gained in co-operation with some of the more advanced developing countries shows that the partners have in fact followed this pattern. Several cases of co-operation in establishing complete, usually vertically integrated, complexes have already occurred in the petrochemical, iron and steel, metal-transforming and some light industries. It seems, however, that the joint formulation and execution of development programmes dealing with whole sectors can be expected to become more systematized in the future only once there is co-operation between the respective planning bodies.

25. If co-operation in industrialization continues, the need will soon become apparent for the individual partners from the two groups of countries, linked to each other themselves bilaterally, to include partners from other countries in their projects. Various forms of multilateral co-operation might then lead to the specialization of each country in certain products with the aim of supplying the other partners with them. In particular, the developing countries could be encouraged to draw adjoining countries into efforts to create and exploit new possibilities in the socialist countries through co-operation and specialization in production. The socialist countries of Eastern Europe have now started to tackle the question of involving groupings of developing countries around a single project, and some initial steps have been discernible in this field. 28/ The socialist countries have begun to consider how to eliminate the obstacle of the small scale of production and market potential in some developing countries by inciting several of such countries to co-operate. 29/

26. Owing to their generally low propensity for capital formation, the developing countries might be especially attracted to concentrate upon industries offering relatively high rates of accumulation. Although it may be extremely difficult to enhance the accumulative capacity of an economy, there would seem no reason not to take into account the criterion of capital formation, when the selection of fields for specialization of the developing countries is being negotiated with the socialist countries.

27. It is only natural to expect that the criterion of efficiency of a new production project in a developing country ranks high among other considerations governing the decisions of the partners to embark upon a specific project. However, owing to the fact that it is only rarely that a newly established plant in a developing country can fulfil the standards of efficiency prevailing in the developed countries, it would seem appropriate to take into account other criteria when making the choices. There is a certain danger that the establishment of new

28/ For example, Czechoslovakia is envisaging assisting Peru in establishing a motor-cycle industry which would offer possibilities of including in production and sales other members of the Andean Group of countries.

29/ For example, Czechoslovakia, in its projects to develop metal-transforming industries in African countries; Hungary, in some projects concerning electrical goods production and marketing in several Asian countries.

industries will be blocked, and the opportunities to create complementary structures severely limited if static and short-term profitability is to be viewed as the only, or even the main consideration. More chances are given to the weaker, developing partner if a long-term view on efficiency is adopted. This in fact means that some future standards of efficiency are assumed and discounted at the moment of taking the decision, allowing sufficient time to train productive factors to achieve such standards. ^{30/} The developing countries are particularly interested, too, in the inclusion in the criteria of specific objectives in the social, educational and political fields. It could even be argued that for many developing countries specialization makes sense only if it contributes to some of these goals. Furthermore, the long-term approach must take account not only of the existing productive environment, but also of the new branches of production which are likely to become part of the national economy. The production envisaged should be judged in terms of its ability to provide an impetus to other industries.

28. Since specialization commits and links the partners' productive structures, it has a considerable impact on the internal economic scene. The question of adapting productive capacities to new requests inevitably arises. Owing, however, to the considerable differences that exist in dimensions, structure and development levels, this problem differs in substantive content in each group of countries, and even in each pair of individual partners. The export specialization of the socialist countries vis-à-vis the developing countries, in the sense of earmarking certain products to cover the needs of the developing countries, should not, in general, given the present stage of their relative positions, be regarded as requiring the setting up of new industries. ^{31/} Nor does it seem necessary for the socialist countries radically to change the existing pattern of production, although it should not be overlooked that selling to the developing countries necessitates a considerable degree of adaptation of the technological parameters, quality standards, etc. The socialist countries - owing to their own development and in particular their integration within the CMEA area and their co-operation with Western countries - will be able to enhance the technological properties and widen the range of the goods supplied.

29. Another aspect of the adjustment process is the impact of socialist countries' imports of goods in which the developing countries specialize. Again it seems that no radical changes in the pattern of production by the socialist countries should be anticipated, principally because the developing countries have rather limited capacities of supply as compared with the sometimes huge demand potential in the socialist countries. Cases in which the socialist countries have actually shifted away from some lines of production and arranged for the developing countries to replace them with exports - as, for example, the German Democratic Republic, Poland and Hungary have done with simpler cotton textile goods - are somewhat rare, and it must be noted that the shifts were brought about mostly by internal reasons, such as the saving of manpower or capital for other purposes. Similarly, few adjustments have been required in the production capacities of the socialist countries as a result of sub-contracting and production-sharing schemes with the developing countries. Experience shows that in the majority of other cases the

^{30/} In all such cases, the developing countries' internal economic policy instruments seem to be of the utmost importance. Their role consists, specifically, in correcting the internal inputs' valuation in such a manner that the product exported to foreign markets remains within a competitive price range.

^{31/} However, for possible new trends in this respect, see para. 17 above.

developing countries were called upon to cover the needs of the socialist countries simply because the existing capacities in the latter, even fully utilized, might not have been able to respond to internal demand. In such cases, the developing countries' specialization was not a consequence of complementary structures, or of efforts to establish such structures, but evolved under the stimulus of competitive market circumstances.

30. Industrial specialization in the developing countries, as envisaged in the present paper, can be expected to promote more radical modifications in the productive structure of these countries. These, however, should be interpreted as consisting mainly in the emergence of new capacities within an environment largely devoid of other industries, so that, usually, there will be little need for any adjustment among existing industries. The only adjustment needed would probably be to make changes in the priorities assigned to industries programmed but not yet established. It would appear hardly ever necessary for the developing countries to refrain from establishing certain lines of production, or to abandon existing forms of production. Similarly, the socialist countries' exports to the developing countries under specialization schemes as a rule contribute to the expansion of the production structure and not to its reduction.

31. By definition, specialization gives rise to long-term and stable links between economies. The developing countries might wish to conceive of such links with new partners, the socialist countries of Eastern Europe, as a convenient way of lessening their dependence on traditional markets. Several types of linkages tailored to different groups of foreign partners can provide effective safeguards against the possible risks of overwhelming foreign influences. The attitude of the socialist countries towards these issues would appear to coincide in large measure with that of the developing countries (see paragraph 7 above). In particular, there seems to be a community of view in the general approach to specialization, in that specialization is considered to be determined by the levels of development prevailing in the partner countries, which implies the idea of changing patterns and including new areas into the sphere of joint interests. The practice of durable links in the industrial field has already drawn attention to several issues which might require attention in future policies. The socialist countries usually wish to secure lasting links and stable foreign inputs, owing to the fact that their development is governed by a central plan and not by market forces, so that durability of relations and reliability and security of deliveries is an essential part of their demands vis-à-vis the developing countries. On the other hand, since the developing countries evolve in changing conditions, usually influenced by market forces, which require alterations in the priorities assigned to the industries which are to be concentrated upon, they may have some apprehensions with respect to long-term links where this might be interpreted as diminishing their freedom of choice. In several instances, certain developing countries and socialist countries have in fact been compelled to renegotiate the substance of, and conditions, for long-term supplies, which were the subject of earlier agreements. All these considerations should be carefully weighed and compared with the obvious advantages of security and concentration over the long term.

32. There is no way of determining in advance what is an adequate period of duration for long-term linkages. In existing practice, the governments of the countries concerned have usually agreed on long-term (5, 10, 15 years) framework co-operation agreements, leaving it up to the implementing bodies and enterprises to specify in each case the period of validity for each contract. Various devices have up to now been employed: e.g. contracts on long-term supplies have sometimes been linked to the period of credit repayments, or to the estimated life of the

equipment involved, or to the duration of socialist countries' current plans. However, a tendency to prolong the period of stable links has undoubtedly been reflected in the majority of the more recent important arrangements.

33. It has been already experienced that the particular circumstances in which economic relations between the socialist countries and the developing countries evolve require a specific institutional framework in order to facilitate the implementation of policies aimed at changing trade structures and establishing new kinds of links. ^{32/} This framework has proved to be more important in the developing countries' relations with the socialist countries than with the other industrialized countries. The inter-State institutional machinery (intergovernmental agreements, mixed intergovernmental commissions and their various working groups, etc.) is constantly being refined in view of the several important tasks such machinery is called upon to perform, such as to facilitate joint policies, or to take care of possible difficulties in trade relations owing, in some cases, to considerable differences in the sizes of each economy or in levels of development. The latest developments in this field reflect the efforts of some socialist countries of Eastern Europe and developing countries to establish institutional links between their national planning organization (among others, the USSR, German Democratic Republic, Romania, and India, Yugoslavia, Egypt).

34. Since internationally agreed policies must be implemented at the national level through appropriate measures, internal mechanisms and institutions are also required. This is less a problem for the socialist countries which, being centrally planned, should not have any major difficulties in executing international decisions in the internal sphere. In contrast, however, this might require considerable efforts in the developing countries since the majority of their economies operate in one way or another under a sort of market mechanism that is not easily adapted to the requirements of co-operation with countries having a different economic system. This is why the international commitments entered into by the developing countries, as part of their co-operation agreements with the socialist countries, have been more effectively implemented in those countries which possess comparatively strong State or public sectors combined with governmental direction and influence in the field of economic decision-making ^{33/} (such as India, Yugoslavia, Iran, Iraq, Syrian Arab Republic, Algeria). Some other developing countries (for example several countries in Latin America, and in Eastern and South-Eastern Asia) have felt the need to make their intergovernmental agreements with the socialist countries of Eastern Europe more effective internally, and have created special domestic organizations with the double aim of channelling internal efforts towards intergovernmental bodies and securing the implementation of the latter's decisions at the national level. The actual activities of such organizations have proved to be very useful in several ways, particularly in enhancing the receptive capacity of the developing countries.

^{32/} See, *inter alia*, TD/125, para. 7 and paras. 41-44, as well as the secretariat study "The role of mixed intergovernmental commissions in trade relations among countries having different economic and social systems" (TD/B/452).

^{33/} See also United Nations, *World Economic Survey, 1974*, Part one. "Mid-term Review and Appraisal of Progress in the Implementation of the International Development Strategy" (E/5665-ST/ESA/26), p. 174.

III. CONCLUSIONS

35. At the present stage of relations between the developing countries and the socialist countries of Eastern Europe, the further development of industrial specialization needs to be supported by adequate governmental policy measures which will create favourable conditions for the materialization of enterprises' interests in this field of international economic relations. This requires measures at both the internal and the intergovernmental levels. By drawing upon multilateral experience, comparing existing problems and the ways they may be solved in various countries, UNCTAD can assist governments in designing consistent and effective economic policies. In doing so, UNCTAD might also have an influence on actual specialization arrangements between parties concretely interested and engaged in them.

36. With the machinery at its disposal UNCTAD might be entrusted with several tasks and, in particular, could:

- (a) Elaborate, on a multilateral basis, generally applicable guidelines, norms or criteria concerning, among other issues, the choice of modalities for establishing and stimulating industrial specialization with a view to achieving development objectives, which could be eventually taken into account when policies for specialization are elaborated by governments;
- (b) Propose practical measures and procedures for utilization by governments in their internal and external policies, to facilitate, inter alia, production and trade, by giving priority treatment to enterprises involved in specialization schemes through appropriate facilities in the financial and fiscal fields, as well as through application of preferential regulations in the foreign trade system, in freight rates, etc.; 34/
- (c) Suggest concrete modalities for the harmonization, to the extent possible, of the legal provisions regulating different issues in respect of specialization;
- (d) Contribute to the establishment of internationally acceptable contractual practice and produce indicative models so as to assist interested enterprises in their actual negotiations;
- (e) Continue to identify new areas with possibilities for the expansion of trade through specialization;
- (f) Investigate and propose modalities and procedures to governments and their subsidiary bodies for the utilization of the opportunities identified;
- (g) Explore the possibilities of and propose modalities for the increased participation of the CMEA and its secretariat in efforts to promote industrial specialization arrangements with the developing countries, on both a bilateral and a multilateral basis;

^{34/} See also "Analytical report on industrial co-operation among ECE countries" (E/ECE/844/Rev.1), chapter V, Summary and suggestions, containing measures which could be adapted to the specific requirements of relations between the developing countries and the socialist countries of Eastern Europe.

(h) Contribute to the establishment of a lasting dialogue between the planning and other competent administrative authorities of the socialist countries of Eastern Europe and the developing countries in order to promote the durability, regularity and stability of specialization arrangements.

37. In performing such tasks UNCTAD might, if so requested by its members, undertake to:

- Organize a seminar or meetings of experts on the above-mentioned topics, such as the modalities for harmonizing legal provisions or the identification of new areas for specialization which, on the basis of comparative reviews and studies, might result in concrete suggestions to the interested governments;
- Improve and effectively utilize the machinery of bilateral and multilateral consultations between countries having different economic and social systems which exists in UNCTAD for discussing trade expansion and ways and means of achieving such expansion through industrial specialization;
- Utilize the meetings of representatives of planning bodies or other relevant authorities of the socialist countries of Eastern Europe and interested countries, which have been proposed by UNCTAD,^{35/} to compare intentions, tendencies, plans and programmes, to explore possibilities for international industrial specialization, and to identify and discuss the prerequisites for such specialization;
- Disseminate information on various aspects of and the issues related to trade-creating specialization, and also, utilizing its own machinery, and in response to the wishes of the governments, contribute to the exchange of information between interested parties on fields in which specialization would be possible and desirable, concrete proposals in this respect, etc.;
- In particular, assess the positive achievements obtained and the solutions of problems adopted in specialization arrangements among the socialist countries of Eastern Europe themselves and between them and the developed market economy countries, with a view to adapting them to the conditions prevailing in relations between the socialist countries and the developing countries, so that the latter might profit from that experience.

^{35/} See secretariat policy paper on trade relations among countries having different economic and social systems (TD/193).

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INTRA-INDUSTRIAL SPECIALIZATION AND ITS IMPACT ON TRADE
AND ECONOMIC CO-OPERATION BETWEEN INDIA AND THE
SOCIALIST COUNTRIES OF EASTERN EUROPE

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1/ The study was prepared at the request of the UNCTAD secretariat. The views expressed in the study do not necessarily reflect those of the UNCTAD secretariat.

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CONTENTS

- A. Introduction and plan of study
- B. Summary of major findings
- C. Trade and specialization between India and the socialist countries of Eastern Europe
- D. Economic interrelations between India and the socialist countries of Eastern Europe: Structure and impact
- E. Possibilities of co-operation between India and the socialist countries of Eastern Europe
- F. Conclusions

Tables

- I. India's imports from the socialist countries of Eastern Europe, classified by 61 commodity groups, 1971-1972
- II. Total imports coefficients of India for 66 sectors of the Indian planning model: Socialist countries of Eastern Europe and the rest of the world, 1973-1974
- III. Direct and indirect requirements of imports from the socialist countries of Eastern Europe and the rest of the world, per thousand rupees of domestic final demand, met from Indian domestic output alone - for 66 sectors of the planning model, 1973-1974 (1971-1972 prices)
- IV. Direct and indirect requirements of imports from the socialist countries of Eastern Europe and the rest of the world, per thousand rupees of total demand (final and intermediate) - for relevant sectors of the planning model, 1973-1974 (1971-1972 prices)
- V. India's exports to the socialist countries of Eastern Europe, 1971-1972
- VI. Unit value of selected exports from India to the socialist countries of Eastern Europe
- VII. Unit value of selected exports from socialist countries of Eastern Europe to India
- VIII. Growth of trade between India and the socialist countries of Eastern Europe, 1952-1953 to 1972-1973
- IX. India's export structure in 1972-1973 and Fifth Plan targets (1974-1979)
- X. Direct and indirect requirements of imports from the socialist countries of Eastern Europe and rest of the world per rupee of final demand for 66 sectors of the planning model: 1978-1979

A. INTRODUCTION AND PLAN OF STUDY

1. The purpose of this study is to examine intra-industrial specialization and economic co-operation between India and the socialist countries of Eastern Europe. The objectives were to examine past results achieved in industrial specialization due to the economic linkages of India with the socialist countries of Eastern Europe, to examine the institutional structure and policy framework in which these results were achieved, and to explore new possibilities of co-operation, and suggest ways of achieving them.

2. Section B summarizes the major findings of the study. Section C explores the broad framework within which a developing economy following a planning system relying on both a public and a private sector, and a developed socialist planned economy, interact. This framework is set within the context of the growth process of the developing and the developed economy. Section D examines in detail the economic inter-linkages of India with the economies of the socialist countries of Eastern Europe. It also compares the economic inter-linkages of the Indian economy with those of the socialist countries of Eastern Europe as a whole and its inter-linkages with the rest of the world. The analysis is conducted within the framework of a 66 sector model of the Indian economy, in order to explore in detail the inter-linkages of trade with economic activity processes. There is also an analysis of the unit prices realized in India's trade with the socialist countries of Eastern Europe and in such trade with other major economies. Section E examines the possibilities of economic co-operation between India and the socialist countries of Eastern Europe during the period of the Fifth Indian Five-Year Plan ending in 1978-1979, and Section F examines the institutional structure within which such trade has been conducted in the past.

B. SUMMARY OF MAJOR FINDINGS

3. Trade between India and the socialist countries of Eastern Europe should be looked at from the viewpoint of the integration of a developing economy, undergoing a process of economic transformation, with developed economies which have completed the initial process of socialist construction and which are developing complex systems to achieve much higher rates of improvement in material standards of living and to solve problems of co-ordination of complex economic sub-systems.

4. The Eastern European economies are by now playing a significant role in the development of the Indian economy and have specialized in providing direct and indirect support through input supplies to equipment, intermediate, and agro-based wage goods sectors of the economy.

5. The rate of growth of India's exports to the Eastern European economies has been high. However, the base of such exports has been in the primary sectors of the Indian economy; the diversification of exports into processed and engineering goods has been weak.

6. India has realized, by and large, favourable unit prices in its trade with the socialist countries of Eastern Europe.

7. The socialist countries of Eastern Europe are now emerging as important trade partners of India.

8. A detailed examination of imports, integrated into the Indian Five-Year Plan model, shows that the relative specialization of the socialist countries of Eastern Europe in the provision of equipment, certain intermediate goods supplying sectors, and agro-based sectors, is expected to continue. It also shows that the Eastern European economies are expected to play a relatively important role in the achievement of the self-sufficiency objectives of Indian planning.

9. Examination of export possibilities suggests that engineering goods sectors, involving a high ratio of skilled and unskilled labour costs, need to be examined closely from the viewpoint of expanding and diversifying Indian exports to the socialist countries of Eastern Europe.

10. A case study of the African economies shows that a prima facie case exists for a closer examination of possibilities of joint ventures in third countries by India and the Eastern European economies.

11. The institution of Joint Commissions to study problems of economic, scientific and technical co-operation is a step in the right direction, since the processes of economic integration between India and the socialist countries of Eastern Europe have now reached a volume and level of maturity such that further development needs detailed planning, within the context of the process of growth of the Indian economy.

C. TRADE AND SPECIALIZATION BETWEEN INDIA AND THE SOCIALIST COUNTRIES OF EASTERN EUROPE

12. The socialist countries of Eastern Europe are industrialized, centrally-planned economies. India, on the other hand, is a poor country, attempting to develop its economy through a process of planning relying on the institutional structure of a mixed economy, namely, the coexistence of public and private sectors. The role that interregional specialization and trade may be expected to play in this context of economies at different levels of development, each adopting planning procedures based on different institutional systems, will be briefly outlined.

13. The influence of socialist planning theory has been strong on the architects of Indian plans. In the earlier period of their development process, both the socialist countries and India have put emphasis on accumulation and the growth of the means of production of investment goods sectors. Thus, according to Mahalanobis, who played a central role in the formulation of India's Second Five-Year Plan, (1955-1960):

"The proper strategy would be to bring about a rapid development of the industries producing investment goods in the beginning by increasing appreciably the proportion of investment in the basic heavy industries. As the capacity to manufacture both heavy and light machinery and other capital goods increases, the capacity to invest by using home produced capital goods would also increase steadily and India would become more and more independent of the import of foreign machinery and capital goods." ^{1/}

^{1/} P.C. Mahalanobis, The Approach of Operational Research to Planning in India, (Bombay, Asia Publishing House, 1963), p.26.

and, "We adopted the value $k=1/3$ as we felt it would not be possible to go beyond this value under present conditions". ^{2/}

Mahalanobis's famous k (fraction of investment allocated to the capital goods sector) was therefore set on a priori grounds in relation to the self-sufficient model of the development process visualized by him. The influence of this theme is persistent and is reflected in the emphasis on "self reliance" in India's Fifth Five-Year Plan (1974-1979). ^{3/} Recently, the Indian planner S. Chakravarty has shown that investment specialization would be justified as the optimal policy in a two sector growth model as soon as non-shiftability of capital is assumed and the "small country assumption" is ruled out on the international trade side. ^{4/}

14. Towards the end of the last decade, the removal of poverty was given an explicit focus in Indian planning. The formal model of the Fifth Plan includes, in addition to the self-reliance objective, a redistribution target, specifically the provision, on an average, of an above poverty-line expenditure level to approximately the poorest third of the population. The consequent impact on the structure of production has also been worked out. While not explicitly recognized in the formal model, this concern is reflected in policy instruments related to the provision of productive employment opportunities to this section of the population. Economic conditions of the rural poor, including landless labourers and marginal farmers, and the wider issue of restructuring of demand in favour of essential wage goods, ^{5/} have become a matter of intense concern after the oil crisis and its impact on fertilizer availability to India. Adverse weather conditions, and the general need to maintain exportable surpluses, have added to the pressures on domestic supplies. Currently, balance between incomes generated and the supply of wage goods has become the critical constraint to the Indian development effort.

15. The very brief discussion above indicates a few general guidelines. Trade in the present context has to be discussed in the framework of the growth pattern of the Indian economy. Thus a detailed look at the output possibilities being envisaged and investment patterns being anticipated will be essential. The increasingly complex nature of the Eastern European economies and awareness within them of the advantages of interregional specialization possibilities present opportunities for exports from a country such as India. Finally, the recent emphasis in India on planning for wage goods, as well as the constraints on the Indian development effort also need to be considered. It has to be clearly stated at the outset that interregional trade in the present study is examined in the context of a process of economic growth, and not in the framework of short-run re-allocation of resources, as in neo-classical trade theory. In view of the discussion in the preceding paragraphs, interregional trade between the socialist

^{2/} Ibid., pp. 40-41.

^{3/} Government of India, Planning Commission, Draft Fifth Five-Year Plan, (New Delhi, Manager of Publications, 1973), vol.1 pp. 3-6.

^{4/} S. Chakravarty, "Optimal Investment Policy in An Underdeveloped Economy," in H.C. Bos (Ed.) Towards Balanced International Growth (Amsterdam, North Holland Publishing Company, 1969), pp. 1-18.

^{5/} Wage goods refer to consumer goods with an income elasticity of demand less than one, such as food and textiles.

countries of Eastern Europe and India may be viewed as a special case of the use of trade as an instrument to trigger off and sustain a process of development in a surplus labour economy, both through the importation of scarce capital and technology for the development of hitherto neglected sectors of the economy, and through providing export markets. This view of trade was emphasized in the last decade by Richard E. Caves in his "vent for surplus" model of trade and growth, 6/ and has received considerable attention since then. 7/ Trade in such a view consists not only of short-run specialization of a fully employed economy in the lines of production in which it is relatively resource-abundant (as in neo-classical theory), but in the expansion of an economy with unutilized resources into new sectors. Such expansion is to be based on the economy's primary endowments, either natural resources or surplus labour, and to be initiated by the import of capital and technology. The process is sustained, however, by interlinkages and complementarities on the domestic supply and demand side and through export markets. In the context being discussed, the question of the role of trade in the short-run framework arises only if either India or the socialist countries of Eastern Europe would face temporary adjustment problems of specific shortages or excess supplies in particular years on account of instability created by fluctuations in world markets. 8/ Such problems, on a general plane, may be anticipated more for the Indian economy, since its planning techniques ensure relatively less control than those of the Eastern European economies, and also since the structure of its economy is less developed and therefore the cushion of domestic substitution possibilities is more limited.

16. We shall begin the empirical analysis of this study with a disaggregated (66 sector) model of the Indian economy, presenting estimates of India's trade with the socialist countries of Eastern Europe and with the rest of the world. The role of the Eastern European economies and the rest of the world in terms of the relative structure of their economic interrelations with the Indian economy and the impact of such interrelations will be quantitatively estimated. The magnitude of such interrelations and their growth in the past will be discussed, to underline changes in trade patterns. The advantage of conducting the analysis in the multi-sectoral model of the Indian economy will be to capture indirect effects and assess in quantitative terms the linkages of trade with the growth process. The study will also explicitly consider future trade possibilities between India and Eastern Europe in terms of the criteria presented earlier and the sectoral growth possibilities visualized by India's Fifth Five-Year Plan.

6/ See R.E. Caves, et.al., Trade Growth and the Balance of Payments: Essays in Honor of Gottfried Haberler, (Amsterdam, North-Holland Publishing Company, 1965), pp. 95-115.

7/ See for example P.K. Bardhan, "Optimum Trade and Development Policy", in J.N. Bhagwati, et.al., (Ed.), Trade, Balance of Payments and Growth, (Amsterdam, North-Holland Publishing Company, 1971), pp. 183-200.

8/ For an explicit discussion of this role of foreign trade in Eastern Europe economies, see A. Boltho, Foreign Trade Criteria in Socialist Economies (Cambridge, Cambridge University Press, 1971), Chs. 3 and 4, and F.D. Holzman, "Foreign Trade Accounting Methods in Centrally Planned and Capitalist Economies", Journal of International Economics, April 1974, pp. 59-66.

Table 1: India's i

Planning Commission Commodity Group No.	Name of commodity group	Bulgaria	Czecho- slovakia	G.D.R.	Hungary
(1)	(2)	(3)	(4)	(5)	(6)
1	Foodgrains	Nil	Nil	Nil	Nil
2	Other agriculture	Nil	Nil	0.26	Nil
3	Animal husbandry	Nil	Nil	Neg.	Nil
4	Plantation products	Nil	Nil	Nil	Nil
5	Forestry	Nil	Nil	Nil	0.01
6	Coal	Nil	Nil	Nil	Nil
7	Misc. coal and misc. petroleum products	Neg.	Nil	Nil	Nil
8	Iron Ore	Nil	Nil	Nil	Nil
9	Crude oil				Not Avail
10	Other minerals	Nil	2.62	Nil	Nil
11	Sugar and gur	Nil	Nil	1.16	Nil
12	Vegetable oils	0.05	Nil	0.42	0.04
13	Tea and coffee	Nil	Nil	Nil	Nil
14	Other food products	0.01	1.54	0.21	0.02
15	Cotton textiles	Nil	Nil	Neg.	Nil
16	Jute textiles	Nil	Nil	Nil	Nil
17	Other textiles	Nil	0.02	0.49	Nil
18	Misc. textile products	Nil	Neg.	Nil	Nil
19	Wood products	Nil	Nil	Nil	Nil
20	Paper and paper products	0.02	3.56	0.84	Neg.
21	Leather and leather products	Nil	Nil	Nil	Neg.
22	Rubber products	0.02	0.04	1.50	0.02
23	Fertilizers	43.75	Nil	13.75	Nil
24	Inorganic heavy chemicals	5.17	0.42	1.69	3.14
25	Organic heavy chemicals	61.37	2.09	11.16	15.21
26	Plastics	0.61	0.02	0.15	0.86
27	Cosmetics and drugs	12.02	0.26	2.66	12.05
28	Man-made fibres	Nil	0.03	Nil	Nil
29	Other chemicals	1.27	3.02	16.31	3.63
30	Petroleum	Nil	Nil	Nil	Nil
31	Cement	Nil	Nil	Nil	Nil
32	Refractories	Nil	Nil	Nil	Nil
33	Other non-metallic mineral products	0.08	0.40	0.21	0.03
34	Iron and steel	12.92	32.08	60.82	28.12
35	Non-ferrous metals	1.29	Nil	0.09	0.79
36	Bolts, nuts etc.	Nil	0.01	Nil	Nil
37	Metal containers	Nil	0.18	Nil	Nil
38	Other metal products	Nil	1.46	0.05	0.09
39	Ball bearings	0.41	2.63	0.28	1.07
40	Office and domestic equipment	Nil	Nil	2.65	0.02
41	Agricultural equipment	Nil	9.21	7.21	Nil
42	Machine tools	Nil	3.34	14.05	0.91
43	Other machinery	3.00	23.04	19.78	0.76
44	Electric motors	Nil	0.85	2.25	0.10
45	Electric wires	Nil	Nil	Nil	Nil
46	Electronics	Nil	0.17	0.71	0.35
47	Batteries	Nil	Nil	Nil	Nil
48	Electrical household goods	Nil	0.28	0.66	0.67
49	Radio	0.04	0.03	0.52	0.14
50	Telephone and telegraph equipment	Nil	0.02	0.01	0.01
51	Other electrics	3.15	2.06	2.71	1.57
52	Motorcycles and bicycles	Nil	0.29	0.03	Nil
53	Motor vehicles	Nil	0.85	1.62	0.19
54	Ships and boats	Nil	Nil	Nil	Nil
55	Aircraft	Nil	0.07	Nil	Nil
56	Railway equipment	Nil	0.01	2.77	7.28
57	Other transport equipment	Nil	Nil	Nil	Nil
58	Watches and clocks	Nil	0.04	0.02	Nil
59	Misc. scientific and industrial instruments	0.02	3.08	9.50	1.94
60	Other industries	Nil	0.01	Nil	Nil
61	Printing	Nil	0.01	0.03	Nil
	TOTAL	145.20	93.74	176.59	79.22

Sources: Government of India, Monthly Statistics of the Foreign Trade of India, vol. II, Imports, March 1972.
The exact reference period is April 1971 - March 1972.

Notes: Neg. = Negligible (less than .01 million).

a/ In millions of rupees.

Exports from the socialist countries of Eastern Europe,
classified by 61 Commodity groups a/
1971-1972

	Poland	Romania	USSR	Total socialist countries of Eastern Europe	Rest of the world	Total	Percentage share of the socialist countries of Eastern Europe	Percentage share of rest of the world
	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Nil	Nil	Nil	Nil	2 837.74	2 837.74	Nil	16.05
	Nil	Nil	Nil	0.26	1 578.03	1 578.29	0.01	8.92
	1.43	Nil	Nil	1.43	358.21	359.64	0.07	2.03
	Nil	Nil	0.48	0.48	8.59	9.07	0.02	0.05
	Nil	Nil	Nil	0.01	8.00	8.01	Neg.	0.05
	Nil	Nil	Nil	Nil	3.94	3.94	Nil	0.02
	1.11	Nil	Nil	1.11	3.67	4.78	0.05	0.02
	Nil	Nil	Nil	Nil	0.11	0.11	Nil	Neg.
b l e	44.36	Nil	31.21	214.95	1 260.11	1 475.06	10.68	7.13
	0.11	Nil	11.96	78.19	245.76	323.95	3.88	1.39
	0.01	Nil	Neg.	0.52	9.08	22.31	0.66	0.05
	Nil	Nil	Nil	Nil	307.51	308.03	0.03	1.74
	1.04	Nil	Neg.	2.82	382.99	385.81	0.14	2.17
	Nil	Nil	Neg.	Nil	14.54	14.54	Nil	0.08
	Nil	Nil	Nil	Nil	Neg.	Neg.	Nil	Neg.
	Neg.	0.07	0.07	0.65	54.69	55.34	0.03	0.31
	1.18	Nil	Neg.	1.18	13.79	14.79	0.06	0.08
	Nil	Nil	Nil	Nil	5.84	5.84	Nil	0.03
	8.81	0.10	55.79	69.12	375.51	444.63	3.43	2.12
	Nil	Nil	Nil	Nil	1.24	1.24	Nil	0.01
	0.24	1.64	0.66	4.12	26.51	30.63	0.20	0.15
	58.44	57.94	21.74	195.62	722.07	917.69	9.72	4.08
	10.08	4.82	1.41	26.73	172.71	199.44	1.33	0.98
	25.85	7.14	20.04	142.84	376.08	518.92	7.09	2.13
	0.35	0.10	0.72	2.79	125.64	128.43	0.14	0.71
	25.35	1.50	5.17	59.01	209.11	268.12	2.93	1.18
	Nil	Nil	Nil	0.03	103.44	103.47	Neg.	0.59
	4.43	Nil	0.98	29.84	331.52	361.36	1.48	1.87
	Nil	Nil	Nil	Nil	466.66	466.66	Nil	2.64
	Nil	Nil	Nil	Nil	0.69	0.69	Nil	Neg.
	8.23	Nil	38.86	47.09	17.57	64.66	2.34	0.10
	1.59	0.01	1.02	3.34	484.62	487.96	0.17	2.74
	74.83	28.88	73.59	311.24	2 095.35	2 406.59	15.46	11.85
	Nil	Nil	28.71	30.88	986.75	1 017.63	1.53	5.58
	0.24	0.06	0.15	0.46	11.08	11.54	0.02	0.06
	0.44	Nil	Nil	0.62	7.00	7.62	0.03	0.04
	1.70	0.88	1.01	5.19	65.26	70.45	0.26	0.37
	8.02	5.55	24.69	42.65	79.99	122.64	2.12	0.45
	0.07	Nil	1.20	3.94	69.94	73.88	0.20	0.40
	62.48	0.15	40.69	119.74	146.30	266.04	5.95	0.83
	15.24	1.03	15.85	50.42	266.11	316.53	2.50	1.51
	30.01	4.29	210.84	291.72	1 262.91	1 554.63	14.49	7.14
	1.05	0.02	15.92	20.19	77.83	98.02	1.00	0.44
	0.07	Nil	2.42	2.49	141.84	144.33	0.12	0.80
	0.05	0.06	3.47	4.81	105.41	110.22	0.24	0.60
	0.02	Nil	Nil	0.02	11.57	11.59	Neg.	0.07
	0.29	Nil	1.78	3.70	62.10	65.80	0.18	0.35
	0.02	Nil	0.30	1.05	46.03	47.08	0.05	0.26
	Nil	Nil	3.38	3.42	81.39	84.81	0.17	0.46
	27.07	0.03	54.92	91.51	671.11	762.62	4.55	3.80
	2.67	Nil	0.80	3.79	7.28	11.07	0.19	0.04
	51.71	0.66	5.94	60.97	295.66	356.63	3.03	1.67
	0.11	Nil	Nil	0.11	16.03	16.14	0.01	0.09
	0.90	Nil	20.35	21.32	244.21	265.53	1.06	1.38
	6.50	Nil	0.50	17.06	182.33	199.39	0.85	1.03
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Nil	Nil	Nil	0.06	8.11	8.17	Neg.	0.05
	2.06	0.34	12.49	29.43	158.25	187.68	1.46	0.89
	0.04	0.13	0.01	0.19	13.93	14.12	0.01	0.08
	0.39	0.04	0.49	0.96	61.89	62.85	0.05	0.35
	478.55	155.44	709.61	2 013.30	17 681.63	19 694.93	100.00	100.00

D. ECONOMIC INTERRELATIONS BETWEEN INDIA AND THE SOCIALIST COUNTRIES OF EASTERN EUROPE: STRUCTURE AND IMPACT

17. For the purpose of this study, the economic interrelations of the socialist countries of Eastern Europe and India have been recast to permit analysis as a part of the formal model of India's Fifth Five-Year Plan. ^{9/} While this procedure involved the retabulation of trade data, classified by the Indian variant of the Standard International Trade Classification (the RITC -- Revised Indian Trade Classification), into 66 sectors of the Indian Plan, it possessed certain obvious advantages. The analysis of the structure and impact of trade with the socialist countries of Eastern Europe on the Indian economy could be conducted as a part of a model containing the most up-to-date and complete information available on the structure of the Indian economy. Again, it was felt that the policy conclusions of the study would have greater usefulness if related to the model underlying India's current development plan. We first discuss the structure and impact of India's imports from the socialist countries, and subsequently the patterns of exports.

18. Table I details India's imports, by commodity, from the socialist countries of Eastern Europe and the rest of the world for 61 commodity groups ^{10/}. The totals for the socialist countries of Eastern Europe are further broken down by countrywise estimates for the seven economies of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR. In 1971-1972 10.22 per cent of India's total imports were purchased from the socialist countries of Eastern Europe. If, somewhat conveniently, the commodity specialization of socialist country exports to India is defined as those commodity groups where the share of socialist country exports is greater than the share of their total exports to India, the following are isolated: miscellaneous coal and miscellaneous petroleum products, crude oil, other minerals, sugar and gur, paper and paper products, rubber products, fertilizers, inorganic heavy chemicals, organic heavy chemicals, cosmetics and drugs, refractories, iron and steel, metal containers, ball-bearings, agricultural equipment, machine tools, other machinery, electric motors, other electricals, motor-cycles and bicycles, and miscellaneous scientific and industrial instruments. It is instantly obvious from the above list that the socialist countries of Eastern Europe have been specializing in the supply of basic intermediates and equipment to India. In particular, they have been supplying India with some of the basic products of the petro-chemical complex of industries, basic metals - particularly iron and steel - and a variety of equipment and machinery products. In view of India's present difficulties on the wage goods

^{9/} Government of India, Planning Commission, A Technical Note on the Approach to the Fifth Plan of India, (New Delhi, Planning Commission, 1973).

^{10/} In this table the last four commodity classifications of the Indian planning model have been omitted because they refer to local sectors not entering into international trade.

and, particularly, the food supply front, the specialization of the socialist countries of Eastern Europe in the supply of items such as fertilizers, chemicals from oil, gas and coal (included in miscellaneous coal and miscellaneous petroleum products), electrical and agricultural equipment may be noted, particularly since the present Indian crisis can be related to the provision of fertilizer (imported, or through fuller utilization of domestic production capacity by balancing imports) and assured water supplies. Countrywise in 1971-1972, India's major trading partners in terms of imports from the socialist countries of Eastern Europe were the USSR, Poland, the German Democratic Republic, and Bulgaria (in that order). The USSR made a substantial contribution to Indian imports of equipment and machinery from the socialist countries, and also products such as non-ferrous minerals (other minerals) and their products (refractories), non-ferrous and ferrous metals (iron and steel), paper and sugar. Poland possessed an extremely diversified pattern in Indian imports, participating in the supply of most sectors, with major specialization in chemicals (fertilizers, organic and inorganic chemicals and drugs) iron and steel and non-ferrous minerals. The German Democratic Republic specialized mainly in the supply of iron and steel, equipment and machinery, and Bulgaria mainly in chemical products, including fertilizers. Czechoslovakia specializes mainly in the supply of equipment and machinery, Hungary in iron and steel, and Romania in fertilizers.

19. Another interesting method of examining the impact of India's imports from the socialist countries of Eastern Europe is to look into the imports by sector of use, rather than the commodity structure of imports as analysed above. Thus the aggregate import coefficient (for current input use only) of a sector of the Indian economy may be examined rather than the commodity structure of imports. Aggregate import coefficients for 66 sectors of the Indian economy are presented in table II, separately broken down by the import coefficient from the socialist countries, and the import coefficient from the rest of the world. It may be noted that these are direct coefficients of imports in relation to output and total import requirements.

20. As is well known, total requirements can be estimated more accurately from a disaggregated matrix of import coefficients than from a sector of aggregate import coefficients. The estimates in table II give a convenient summary of the direct dependence of different sectors of the Indian economy on imports from the socialist countries and the rest of the world, for inputs for current production, per unit of domestic output. The estimates show that in absolute magnitudes the only sector which is more dependent on imports from the socialist countries of Eastern Europe than on the rest of the world is other minerals. We have noted in paragraph 18 that the socialist countries supplied only 10.22 per cent of India's aggregate imports in 1971-1972. Given the different relative sizes of the economies of the socialist countries and the rest of the world, the fact that the Indian economy depends on the latter rather than on the former is to be expected. Thus the dependence of a sector of the Indian economy on the socialist countries and on the rest of the world should be examined in a relative sense. Given the overall volume of trade relations, between India and the socialist countries on the one hand, and between India and the rest of the world on the other, relative sectoral dependence on imports from the socialist countries of Eastern Europe is said to exist when the ratio of the sector's import coefficient from the socialist countries to the import coefficient from the rest of the world is greater than the ratio of India's total imports from the socialist countries to her total imports from the rest of the world. In this relative context, the following

Table II: Total import coefficients of India for 66 sectors of the Indian planning model: Socialist countries of Eastern Europe and rest of the world, 1973-1974

(Imports per thousand rupees of output in 1971-1972 producer prices)

Planning Commission number of sector	Name of sector	Socialist Countries of Eastern Europe	Rest of the world
(1)	(2)	(3)	(4)
1	Foodgrains	2.70	10.30
2	Other agriculture	0.63	2.64
3	Animal husbandry	Neg.	0.09
4	Plantation	6.69	33.17
5	Forestry	Nil	Nil
6	Coal	Neg.	0.02
7	Misc. coal and misc. petroleum products	0.01	0.04
8	Iron ore	Neg.	0.04
9	Crude oil	Neg.	0.02
10	Other minerals	Neg.	Nil
11	Sugar and gur	Nil	Nil
12	Vegetable oils	0.06	34.22
13	Tea and coffee	Nil	Nil
14	Other food products	Neg.	0.56
15	Cotton textiles	0.02	58.17
16	Jute textiles	Neg.	3.49
17	Other textiles	0.11	27.72
18	Misc. textile products	Neg.	1.43
19	Wood products	0.01	1.50
20	Paper and paper products	21.60	114.65
21	Leather and leather products	0.02	4.25
22	Rubber products	1.15	17.05
23	Fertilizers	21.55	87.28
24	Inorganic heavy chemicals	7.12	42.55
25	Organic heavy chemicals	8.14	43.80
26	Plastics	17.37	82.00
27	Cosmetics and drugs	33.47	121.56
28	Man-made fibres	16.69	109.11
29	Other chemicals	8.87	89.53
30	Petroleum products	82.22	482.09
31	Cement	Neg.	0.04
32	Refractories	0.42	1.31
33	Other non-metallic mineral products	0.70	29.22
34	Iron and steel	1.34	12.19
35	Non-ferrous metals	5.19	148.13
36	Bolts, nuts, etc.	7.34	49.20
37	Metal containers	1.09	9.84
38	Other metal products	1.47	19.51

Table II (contd.)

(1)	(2)	(3)	(4)
39	Ball bearings	0.44	3.91
40	Office and domestic equipment	0.32	2.79
41	Agricultural equipment	0.37	2.53
42	Machine tools	7.77	52.57
43	Other machinery	14.98	94.54
44	Electric motors	1.27	5.63
45	Electric wires	4.49	140.30
46	Electronics	0.50	5.01
47	Batteries	1.26	37.70
48	Electrical household goods	0.35	5.13
49	Radio	9.92	82.96
50	Telephone and telegraph equipment	1.21	30.33
51	Other electricals	4.37	60.76
52	Motorcycles and bicycles	0.61	3.55
53	Motor vehicles	8.89	63.45
54	Ships and boats	8.28	55.88
55	Aircraft	0.12	1.06
56	Railway equipment	0.95	17.68
57	Other transport equipment	0.32	2.13
58	Watches and clocks	0.21	1.68
59	Misc. scientific and industrial instruments	17.20	158.66
60	Other industries	0.61	16.89
61	Printing	40.32	215.52
62	Electricity	Nil	Nil
63	Construction	Nil	Nil
64	Railways	Nil	Nil
65	Other transport	Nil	Nil
66	Other services	Nil	Nil

Notes: 1. The 66-sector planning model refers to sectors of industrial activity in the Indian economy.

2. In this table and some others in the study, as well as for references in the text itself, which give aggregate figures for the socialist countries of Eastern Europe without breaking down the total figure by country, Yugoslavia is included.

3. These figures, and those for tables III, IV and V, have been rounded; more complete figures are available.

sectors are isolated: foodgrains, other agriculture, plantations, coal, miscellaneous coal and miscellaneous petroleum products, iron ore, crude oil, other minerals, paper products, fertilizers, inorganic heavy chemicals, organic heavy chemicals, plastics, cosmetics and drugs, man-made fibres, petroleum products, refractories, iron and steel, bolts and nuts, metal containers, ball-bearings, office and domestic equipment, agricultural equipment, machine tools, other machinery, electric motors, radio, motor-cycles and bicycles, motor vehicles, ships and boats, other transport equipment, watches and clocks, miscellaneous scientific instruments and printing.

21. This list shows again the relative strength of the interrelation between the intermediate and equipment producing sectors of the Indian economy and the socialist countries of Eastern Europe. Agricultural sectors such as foodgrains, other agriculture and plantations are now also included. In addition, certain other consumer and consumer durable sectors are a part of the list, such as plastics, man-made fibres, office and domestic equipment, motor vehicles, watches and clocks, and printing.

22. In this section we examine the linkages of India's import structure by estimating the direct and indirect requirements of imports from the socialist countries of Eastern Europe and the rest of the world per unit of final demand in each of the 66 sectors of the Indian economy. Such direct and indirect import requirements may be estimated in two ways. One method would be to work out the direct and indirect import requirements per unit (say one Rupee) of final demand met from domestic output alone. 11/ Table III estimates such direct and indirect import requirements, per unit of final demand met from domestic output, for each sector of the Indian economy, separately for the socialist countries of Eastern Europe and the rest of the world. The estimates show that the total requirements, direct and indirect, per unit of final demand met from domestic sources, are much higher from the rest of the world than from the socialist countries for every sector. Defining relative dependence again as in paragraphs 19 and 20 (sectoral ratio of direct and indirect import coefficients per unit of final demand from socialist countries to the import coefficients from the rest of the world being greater than the ratio of total imports from socialist countries to total imports from the rest of the world) the following sectors are isolated as being relatively dependent on imports from socialist countries: foodgrains, other agriculture, animal husbandry, plantations, forestry, coal, miscellaneous coal and miscellaneous petroleum products, iron ore, crude oil, other minerals, sugar and gur, tea and coffee, other food products, jute textiles, wood products, paper and paper products, fertilizers, inorganic heavy chemicals, organic heavy chemicals, plastics, cosmetics and drugs, man-made fibres, petroleum products, cement, refractories, bolts and nuts, ball-bearings, machine tools,

11/ If X^m is a column vector ($n \times 1$) of direct and indirect requirements of imports, M is a matrix ($n \times n$) of import coefficients, I is an identity matrix (order n), A is a matrix ($n \times n$) of domestic input coefficients and F^d is a column vector ($n \times 1$) of final demand met from domestic output alone, it is well known that:

$$X^m = M (I - A)^{-1} F^d$$

If F_i^d is set at 1 for the i th sector and 0 for all other sectors, direct and indirect requirements of imports per unit of final demand met from domestic output can be estimated.

Table III: Direct and indirect requirements of imports from the socialist countries of Eastern Europe and the rest of the world, per thousand rupees of domestic final demand, met from Indian domestic output alone - for 66 sectors of the Planning Model 1973-1974. (1971-1972 prices)

Planning Commission number of sector	Name of sector	Socialist countries of Eastern Europe	Rest of the world
(1)	(2)	(3)	(4)
1	Foodgrains	3.72	15.12
2	Other agriculture	1.10	5.13
3	Animal husbandry	0.72	3.66
4	Plantation	7.61	40.01
5	Forestry	0.08	0.69
6	Coal	1.70	11.62
7	Misc. coal and misc. petroleum products	1.46	9.41
8	Iron ore	2.98	19.48
9	Crude oil	0.45	3.36
10	Other minerals	2.85	19.19
11	Sugar and gur	1.08	5.96
12	Vegetable oils	1.06	47.20
13	Tea and coffee	4.20	23.08
14	Other food products	1.64	10.31
15	Cotton textiles	1.25	70.30
16	Jute textiles	8.24	9.37
17	Other textiles	4.93	68.02
18	Misc. textile products	0.90	14.19
19	Wood products	0.67	6.19
20	Paper and paper products	24.62	136.54
21	Leather and leather products	2.03	24.01
22	Rubber products	3.38	40.85
23	Fertilizers	2.44	103.72
24	Inorganic heavy chemicals	9.24	60.81
25	Organic heavy chemicals	7.49	44.16
26	Plastics	15.73	80.53
27	Cosmetics and drugs	35.90	131.06
28	Man-made fibres	14.85	103.21
29	Other chemicals	5.83	75.16
30	Petroleum products	58.42	353.37
31	Cement	1.95	12.72
32	Refractories	1.74	102.26
33	Other non-metallic mineral products	1.83	39.81
34	Iron and steel	2.90	30.11
35	Non-ferrous metals	8.28	209.45
36	Bolts, nuts, etc.	9.26	67.51
37	Metal containers	2.86	30.80
38	Other metal products	3.10	44.73

Table III (cont'd)

- 13 -

(1)	(2)	(3)	(4)
39	Ball bearings	2.03	19.61
40	Office and domestic equipment	1.86	20.20
41	Agricultural equipment	1.61	16.57
42	Machine tools	9.14	68.61
43	Other machinery	17.82	123.11
44	Electric motors	4.20	65.14
45	Electric wires	8.02	203.07
46	Electronics	2.30	27.10
47	Batteries	3.23	65.63
48	Electrical household goods	3.42	60.95
49	Radio	12.85	109.85
50	Telephone and telegraph equipment	3.18	66.06
51	Other electricals	7.20	109.92
52	Motor cycles and bicycles	2.81	26.99
53	Motor vehicles	15.42	116.08
54	Ships and boats	12.88	93.12
55	Aircraft	1.59	18.77
56	Railway equipment	2.85	40.25
57	Other transport equipment	1.02	8.78
58	Watches and clocks	2.00	22.68
59	Misc. scientific and industrial instruments	19.86	197.63
60	Other industries	5.17	58.45
61	Printing	42.68	231.48
62	Electricity	0.84	6.68
63	Construction	1.10	15.70
64	Railways	0.74	6.49
65	Other transport	2.49	15.66
66	Other services	1.19	1.47

NOTE: Direct and indirect requirements of imports to produce one unit of final demand met from domestic sources are estimated from:

$$X^m = M (I - A)^{-1} F^d \quad (\text{See text for notation});$$

F_i^d is set at one for the i th sector and at zero for all other sectors, to obtain the estimates for the i th sector.

Source: Government of India, Planning Commission, A Technical Note on the Approach to the fifth Plan of India (New Delhi, Planning Commission, 1973), annexure III, table III - 3 and table III - 4, pp. 37-58.

other machinery, electric motors, radio, motor-cycles and bicycles, motor vehicles, ships and boats, other transport equipment, printing, electricity, railways, other transport, and other services. Comparison of the sectors of the Indian economy relatively dependent on the socialist countries of Eastern Europe as seen through direct import coefficients (paragraphs 19 and 20) and as now seen through direct and indirect import coefficients is instructive. The wider network of linkages of imports from the socialist countries with the Indian economy is shown by the fact that a larger total number of sectors is shown to be relatively specializing in imports from the socialist countries when examined through direct and indirect import requirements rather than through direct imports. The total of such sectors is increased by six when both direct and indirect import requirements are taken into consideration. However, the composition of sectoral dependence also changes. The sectors which are not relatively dependent on imports from the socialist countries as seen through direct import requirements, but which are dependent when both direct and indirect requirements are considered include the following: animal husbandry, forestry, sugar and gur, tea and coffee, other food products, jute textiles, wood products, cement, electricity, railways, other transport, and other services. Sectors shown above as relatively specializing in imports from the socialist countries of Eastern Europe through direct import coefficients, but not shown so when examined through direct and indirect import dependence, include the following: iron and steel, metal containers, office and domestic equipment, agricultural equipment, watches and clocks, and miscellaneous scientific instruments.

23. It is obvious from the above lists that in the sense of direct and indirect import dependence, agro-based sectors of the Indian economy specialize in interrelations with the Eastern European economies. Again, local infrastructure-supplying sectors, such as electricity, railways, other transport and other services also figure in the list.

24. Another method of estimating such direct and indirect requirements of imports, per unit of final demand, would be explicitly to include the final demand met directly from imports. Accordingly, the imports used for final demand and for inter-industry consumption, directly and indirectly, are estimated per unit of final demand generated in the economy. ^{12/} Such estimates are presented in table IV. Given the structure of the Indian economy at present, the use of imports for directly meeting final demand is crucially important for certain equipment producing sectors, where such imports are necessary for fixed investment purposes. In the case of sectors such as agricultural implements, machine tools, other machinery, electric motors, telephone and telegraph equipment, motor vehicles, ships and boats, aircraft and rail equipment, from 90 to 100 per cent of imports are used directly for fixed investment purposes. ^{13/} In certain other sectors, such as petroleum products and drugs, imports are substantially used for satisfying public and/or private consumption demand. The socialist countries of

^{12/} In addition to the terminology used in the last footnote, if F^M is a column vector ($n \times 1$) of final demand met from imports,

$$X^M = M(I - A)^{-1} F^d + F^M$$

Now a unit of final demand in the j th sector can be distributed for the sector between F_j^d and F_j^M such that $F_j^d + F_j^M = 1$ and the direct and indirect import requirements estimated for the i th sector.

^{13/} See: Government of India, Planning Commission, A Technical Note on the Approach to the Fifth Plan of India (New Delhi, Planning Commission, 1973), table III - 2, p. 36.

Table IV: Direct and indirect requirements of imports from the socialist countries of Eastern Europe and the rest of the world per thousand rupees of total demand (final and intermediate) - for relevant sectors of the planning model - 1974-1974.
(1971 - 1972 prices)

Planning Commission number of sector	Name of Sector	Socialist countries of Eastern Europe	Rest of the world
(1)	(2)	(3)	(4)
2	Other agriculture	1.44	5.47
12	Vegetable oils	4.95	50.91
14	Other food products	124.32	131.92
20	Paper and paper products	26.02	137.79
21	Leather and leather products	2.09	24.07
26	Plastics	17.81	82.48
27	Cosmetics and drugs	117.13	204.27
30	Petroleum products	326.57	537.52
33	Other non-metallic mineral products	3.61	41.52
38	Other metal products	4.69	46.26
40	Office and domestic equipment	44.35	61.90
41	Agricultural equipment	86.94	100.62
42	Machine tools	77.75	133.11
43	Other machinery	461.56	519.28
44	Electric motors	29.69	89.07
45	Electric wires	24.24	216.10
46	Electronics	3.61	28.37
47	Batteries	10.25	72.21
48	Electrical household goods	4.33	61.81
50	Telephone and telegraph equipment	40.77	101.28
51	Other electricals	87.27	180.99
53	Motor vehicles	44.03	141.77
54	Ships and boats	40.97	118.93
55	Aircraft	182.81	196.87
56	Railway equipment	29.12	65.54
58	Misc. scientific and industrial instruments	118.37	278.27
60	Other industries	9.39	62.45
61	Printing	59.92	245.32
65	Other transport	87.55	99.60
66	Other services	56.37	57.58

NOTES: 1. Direct and indirect requirements of imports to produce one unit of final demand are estimated from:

$$X^m = M (I-a)^{-1} F^d + F^m \text{ (See text for notation)}$$

$F_i^d + F_i^m$ is set at one for the i th sector and at zero for all other sectors, to obtain the estimates for the i th sector.

2. Estimates are only presented for the sectors for which $F_i^m > 0$.
For other sections, the estimates are as in Table III.

Source: In addition to data sources for estimates in table III of this study, tables III-1 and III-5, p.35 and 59, in A technical note on the approach to the Fifth Plan of India, op cit. have been used.

Eastern Europe specialize as a source of such equipment and intermediate imports of India. Thus for such sectors, as a comparison of table III with table IV indicates, the inclusion of imports into final demand considerably enhances the relative impact of imports from the socialist countries on the Indian economy. To conclude, the stronger linkage between the Indian and the socialist countries' economies pertains to equipment and intermediate products imports. In addition to such inter-linkages, when both the direct and indirect requirements of imports are quantified many of the agro-based sectors of the Indian economy are shown to possess significant inter-relations with the Eastern European economies.

25. Table V below gives estimates of India's exports to the socialist countries of Eastern Europe in 1971-1972. ^{14/} The USSR accounted for approximately 65 per cent of India's exports to the socialist countries of Eastern Europe, and Czechoslovakia approximately a tenth, while the remaining socialist countries' share ranged from 3 to 6 per cent. India's exports to the socialist countries of Eastern Europe were 21.4 per cent of her total exports in 1971-1972. However, these countries accounted for 65.2 per cent of India's total exports of oilseed cake and meal, 57.3 per cent of India's total coffee exports, 54.2 per cent of total clothing exports, 41.4 per cent of her exports of unmanufactured tobacco, and 34.5 per cent of total leather exports. On the other hand, India exported only 11.2 per cent of her total exports of engineering goods to the socialist countries.

26. Given the fact that India exports mainly primary commodities to the socialist countries, it is obvious that the indirect effects of such exports are rudimentary, since the extent of domestic processing of such commodities is limited.

27. Because India imports mainly equipment and intermediate products from the socialist countries of Eastern Europe and exports mainly primary products, a brief analysis of the unit prices received for exports and paid for imports may be of some interest. This is particularly so since prices in India's trade with the socialist countries are determined, amongst other factors, through bilateral negotiations. Estimates of unit prices for certain important Indian export commodities, presented in table VI, suggest that generally India received favourable prices from the socialist countries of Eastern Europe as compared to the rest of the world, for the products contained in that table. Data on estimates of

^{14/} Export data from India to the socialist countries of Eastern Europe has also been cast in the structure of the 66 sectors planning model of the Indian economy. However, the estimates have been presented differently in this study, due to two reasons. The major content of India's exports to Eastern Europe is in agro-based and other primary products. It was found that the 66 sector classification of the Indian economy was not detailed enough, particularly regarding the agro-based and primary sectors, and tended to aggregate over important details. Secondly, the export of equipment and metal products was not important enough in India's exports to the socialist countries to permit functional use of the 66 sector classification, which was highly disaggregated for such sectors. Thus the 66 sector classification was neither economical nor functional in analysing India's exports to the socialist countries. Instead, a classification of India's exports to these countries used in a recent official Indian Source has been adopted in this report. See "India's Trade with Eastern European Countries," Reserve Bank of India Bulletin, March 1974, pp. 418-467.

Table V: India's exports to the socialist countries of Eastern Europe, 1971-1972
(In Rs. millions)

Commodities	Bulgaria		Czechoslovakia		GDR		Hungary		Poland		Romania		USSR		Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
I Jute manufactures	28.8	37.3	35.8	17.4	1.2	5.0	314.8	440.3								
II Tea	1.0	5.7	5.0	0.4	46.6	-	329.9	388.6								
III Cotton textiles	-	32.9	0.6	0.6	2.0	8.7	88.1	128.9								
IV Iron ore and concentrates	11.8	38.0	-	6.9	25.0	62.3	-	144.0								
V Cashew kernels	1.1	7.2	7.5	0.3	1.3	1.0	180.1	198.5								
VI Tobacco, unmanufactured	-	19.3	2.8	-	-	-	152.8	174.9								
VII Spices	3.5	7.8	3.0	7.7	10.1	6.3	77.1	115.5								
VIII Oilseeds, cake and meal	10.9	34.0	48.9	52.8	58.7	4.2	34.4	243.5								
IX Coffee	9.0	5.1	4.9	-	-	6.6	74.6	100.2								
X Cotton, raw and waste	20.4	5.9	2.4	3.3	0.9	0.4	-	33.3								
XI Mica	1.5	10.4	8.9	5.7	17.4	3.1	51.6	98.6								
XII Raw jute	0.1	-	-	-	-	-	23.9	24.0								
XIII Engineering goods	5.5	7.3	11.0	16.9	4.1	1.9	50.4	97.1								
XIV Iron and steel	0.5	-	-	-	-	5.9	77.7	84.1								
XV Leather	28.6	30.2	25.1	14.2	10.5	3.1	166.9	278.6								
XVI Clothing	0.5	10.2	0.1	5.9	2.3	-	182.7	201.7								
XVII Gesta	-	3.9	1.6	-	-	-	55.4	60.9								
XVIII Groundnut (N.P.S.)	2.7	6.7	2.3	0.5	2.0	1.6	19.7	35.5								
XIX Coir yarn & manufactures	7.1	6.4	4.1	6.0	2.4	3.4	17.1	46.4								
XX Footwear	1.5	-	-	-	-	-	33.6	35.1								
XXI Others	20.4	36.6	15.7	16.6	14.6	1.9	156.2	262.0								
TOTAL	154.8	304.9	179.7	155.2	199.1	111.4	2087.0	3192.1								

Source: Reserve Bank of India Bulletin, March, 1974, pp. 436-443. The exact period of reference is April 1971 to March 1972.

unit value of exports of socialist countries to India, presented in table VII, does not present a uniformly consistent picture. However, apart from the case of chloroform and octanol, no persistent trend of relatively higher unit prices of socialist country exports to India is shown. By and large, India seems to be trading on favourable terms with the socialist countries of Eastern Europe, even though her imports are largely of manufactured goods and exports predominantly of primary commodities.

28. It may be noted that the 1950s and 1960s witnessed a very fast growth of trade between India and the socialist countries. In 1952-1953 the level of such trade was quite low when compared with total Indian world trade. Exports to and imports from the socialist countries of Eastern Europe had a value of only several million Roubles each, of a total export and import level of Rs. 5537 million and Rs. 6354 million respectively. However, by 1960-1961, Eastern European trade accounted for 7.8 per cent of India's total exports and 3.9 per cent of India's total imports. This momentum was maintained, and in 1972-1973 Indian trade with the socialist countries of Eastern Europe accounted for 24.0 per cent of India's total exports and 12.1 per cent of its total imports. Table VIII shows that the expansion of trade between India and the socialist countries of Eastern Europe during the last two decades was more or less evenly shared by the individual socialist countries.

29. Trade activities in the socialist countries of Eastern Europe are conducted by State-owned agencies, and in India by both State-owned agencies and firms in the private sector. From the institutional angle, the history of trade relations between India and socialist countries is one of a gradual development and evolution of more complex mechanisms as the structure of trade grew in size and level of diversification.

30. The earliest agreements that India made with some of the socialist countries of Eastern Europe, immediately after attaining independence, were really barter agreements providing for exchange of scarce commodities through quota provisions. In the period 1953-1954 India signed trade and payments agreements with each of the socialist countries. The agreements included schedules of commodities to be traded which were periodically revised, most-favoured-nation (MFN) treatment clauses, and payments arrangements. An MFN clause was inserted in each of the bilateral agreements. Generally it also provided for exceptions, such as advantages accorded by either party to contiguous countries.

31. The payments arrangements generally were effected in non-convertible rupees, with a settlement clause. The central banks of the socialist countries opened accounts with the Indian Central Bank (The Reserve Bank of India) and other commercial banks in India. The latter accounts provided for mutual transfers of funds. Generally, attempts were made to balance trade. Trade surpluses or deficits could be cleared in a mutually acceptable manner, through technical credits, offset arrangements or in convertible currencies or gold. The bilateral arrangements led to substantial expansion of trade after the mid-1950s. Most careful Indian students of the bilateral trade and payments agreements have concluded that they were instrumental in increasing trade and not in restricting it.^{15/}

32. Since 1959, long term payments agreements provide for payment adjustments in non-convertible Rupees, with technical credits and offset arrangements for balancing. The agreements provided for schedules of commodities for exports and imports. Annual trade plans were prepared and in some cases Joint Committees set up to review difficulties.

^{15/} Sunanda Sen, *op.cit.*, pp. 98-106. Also see Sumitra Chisti, India's Trade with East Europe. (New Delhi, Indian Institute of Foreign Trade, 1973).

Table VI: Unit value of selected exports from India to the socialist countries of Eastern Europe
(In Rupees)

Commodity	Unit of quantity	1969-70				1970-71				1971-72			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1 Castor kernels, whole	Kg.	15.35	15.16	15.12	15.15	15.07	15.05	15.07	15.05	15.07	15.08	15.08	15.08
2 Coffee Arabica plantation 'A'	Kg.	6.81	6.46	6.69	6.34	6.38	6.34	6.38	6.34	6.38	6.34	6.34	6.34
3 Tea black leaf in bulk	Kg.	8.30	7.69	7.98	8.07	8.14	8.14	8.14	8.14	8.14	8.14	8.14	8.14
4 Tea black dust in bulk	Kg.	5.37	6.26	-	6.54	-	-	-	-	-	-	-	-
5 Black pepper, garbled	Kg.	5.13	5.27	5.44	5.46	5.46	5.46	5.46	5.46	5.46	5.46	5.46	5.46
6 Solvent extracted groundnut oilcake	Tonne	686.35	577.53	665.81	635.82	674.97	667.17	667.17	667.17	667.17	667.17	667.17	667.17
7 Solvent extracted cottonseed oilcake, decorticated	Tonne	508.87	467.67	535.95	447.62	529.35	508.81	529.35	508.81	529.35	529.35	529.35	529.35
8 Virginia flue cured tobacco	Kg.	3.85	1.40	6.18	7.37	7.39	7.37	7.39	7.37	7.39	7.37	7.37	7.37
9 Bengal ls. ii raw cotton	Tonne	5 703.95	5 947.39	4 377.03	4 115.25	4 961.53	4 296.49	4 961.53	4 296.49	4 961.53	4 961.53	4 961.53	4 961.53
10 Mica (Bihar and Rajasthan good stained black)	Kg.	119.81	75.79	138.49	95.41	106.63	116.63	106.63	116.63	106.63	116.63	116.63	116.63
11 Mica (Bihar and Rajasthan stained black)	Kg.	81.57	74.50	59.44	57.44	67.44	59.91	67.44	59.91	67.44	59.91	59.91	59.91
12 Iron ore	Tonne	46.66	55.36	62.03	55.56	62.53	54.03	62.53	54.03	62.53	54.03	54.03	54.03
13 Sandalwood oil	Kg.	969.55	252.48	197.98	252.62	259.09	240.06	259.09	240.06	259.09	240.06	240.06	240.06
14 Sheep and lamb skin yag. tanned (unfinished)	Kg.	39.12	34.95	39.05	39.82	37.25	37.54	37.25	37.54	37.25	37.54	37.54	37.54
15 Goat and kid skin large tanned (unfinished)	Kg.	56.16	35.34	45.51	51.03	35.47	33.50	35.47	33.50	35.47	33.50	33.50	33.50
16 Cotton yarn and thread singles, carded	Kg.	6.05	6.74	6.75	5.88	7.00	6.49	7.00	6.49	7.00	6.49	6.49	6.49
17 Coir yarn	Kg.	6.17	5.67	7.19	5.17	7.54	5.25	7.54	5.25	7.54	5.25	5.25	5.25
18 Sheeting - arled yarn (unbleached)	Dozs.	1.38	1.15	1.35	1.03	1.58	1.33	1.58	1.33	1.58	1.33	1.33	1.33
19 Bedding cloth	Tonne	2 547.02	3 085.11	2 805.75	3 115.15	3 547.02	3 547.02	3 547.02	3 547.02	3 547.02	3 547.02	3 547.02	3 547.02
20 Bedding cloth	Tonne	1 945.39	2 084.40	-	2 479.17	2 547.02	2 547.02	2 547.02	2 547.02	2 547.02	2 547.02	2 547.02	2 547.02
21 Jute packing bags	Tonne	1 994.48	2 056.65	2 981.18	3 960.98	3 105.56	3 302.56	3 105.56	3 302.56	3 105.56	3 302.56	3 302.56	3 302.56

Source: Bureau of India Statistics, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100.

Table VII: Unit value of selected exports from socialist countries of Eastern Europe to India

(In Rupees)

Commodities	Unit of quantity	1968-69			1969-70			1970-71			1971-72		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1 Kerosene	Tonne	-	-	-	-	220.38	204.67	252.52	262.65	267.72	248.04		
2 Lubricants	Tonne	-	-	-	-	593.46	705.96	864.80	685.78	545.98	766.69		
3 Naphthalene	Kg.	2.19	2.13	2.19	2.13	1.25	1.71	0.89	0.82	1.64	0.98		
4 Chloroform	Kg.	2.61	2.38	2.61	2.38	2.40	2.26	2.41	2.10	-	2.49		
5 Octanol	Kg.	3.04	2.79	3.04	2.79	2.77	2.31	2.50	2.30	3.07	2.51		
6 Urea	Kg.	0.67	0.85	0.67	0.85	0.68	0.63	0.61	0.70	0.51	0.52		
7 Sulphonamide	Kg.	9.00	6.23	9.00	6.23	9.74	8.57	8.98	29.51	-	-		
8 Pitaneum dioxide	Kg.	4.20	3.78	4.20	3.78	4.68	3.52	4.65	3.13	3.44	3.73		
9 Sulphathiazole	Kg.	33.61	29.98	33.61	29.98	29.97	25.88	33.52	34.10	32.80	39.34		
10 Sulphadiazine	Kg.	51.77	41.90	51.77	41.90	54.07	39.34	63.47	51.21	100.63	67.23		
11 Urea (containing not more than 45% nitrogen)	Tonne	667.48	659.82	667.48	659.82	582.78	637.92	532.45	623.89	473.93	521.13		
12 Potassium chloride, commercial	Tonne	388.93	383.56	388.93	383.56	359.92	325.92	357.58	409.12	387.70	350.65		
13 Newsprint	Kg.	1.11	1.15	1.11	1.15	1.32	1.14	1.30	0.92	1.40	1.31		
14 Heavy plates etc., boiler quality	Tonne	1 081.93	1 059.96	1 081.93	1 059.96	1 394.57	1 04.04	1 898.60	1 832.32	1 559.42	2 056.91		
15 Plates and sheets (below 3 mm. thick, iron and steel uncoated)	Tonne	1 130.07	3 061.72	1 130.07	3 061.72	1 300.13	2 620.35	1 826.07	3 378.88	1 637.25	2 245.65		
16 Tinned plates and sheets	Tonne	1 573.16	1 179.44	1 573.16	1 179.44	1 489.75	1 306.68	1 638.06	1 393.94	1 637.54	1 610.00		
17 Tubes and pipes of iron and steel (except cast-iron) seamless tubes and pipes	Tonne	2 338.73	4 012.08	2 338.73	4 012.08	3 227.62	3 704.09	3 235.42	5 539.29	4 935.49	4 639.36		

Sources: Reserve Bank of India Bulletin, pp. 430, 458-467

Table VIII. Growth of trade between India and the socialist countries of Eastern Europe, 1952-1953 to 1972-1973

(per cent per year)

Country	Annual compounded growth rate in exports from India		Annual compounded growth rate in imports to India	
	1952-53 to 1959-60	1960-61 to 1972-73	1952-53 to 1959-60	1960-61 to 1972-73
(1)	(2)	(3)	(4)	(5)
Bulgaria	16.03	14.24	16.98	12.39
Czechoslovakia	12.12	11.52	11.63	10.45
G.D.R.	18.63	11.24	15.28	11.43
Hungary	12.77	11.85	13.69	11.62
Poland	18.25	12.06	14.12	11.71
Romania	17.27	12.06	13.08	10.79
USSR	15.63	11.99	17.05	11.57

Source: Sunanda Sen, India's Bilateral Payments and Trade Agreements, 1947-48 to 1963-64 (Calcutta, Bookland, 1965) has tabulated official Indian data which was used for estimating growth rates for the period 1952-53 to 1959-60. Reserve Bank of India Bulletin, March 1974 was the data source for computing growth rates for the period 1960-61 to 1972-73.

E. POSSIBILITIES OF CO-OPERATION BETWEEN INDIA AND THE SOCIALIST COUNTRIES OF EASTERN EUROPE.

33. Table IX summarizes achievements with regard to Indian exports to the socialist countries of Eastern Europe and the rest of the world in 1972-1973 and the export targets for the total five-year period 1974-1979. The estimates show that efforts to enhance total Indian exports are expected to be concentrated on some traditional exports to the socialist countries, as well as in new directions. In the former category are included commodities such as iron ore and concentrates, cashew kernels, mica and footwear. The new emphasis includes the catch-all category "engineering goods", the details of which will be examined subsequently. New commodity groups in which major concentration of export effort is expected, in which at present the socialist countries of Eastern Europe do not figure in any significant sense, include marine products, coal, and chemical products (included in the "other" category, table IX). Since the lack of diversification of India's exports to the socialist countries of Eastern Europe has been examined earlier, a closer look at the rationale for such diversification, and policy approaches to it, may be in order.

34. As regards engineering products, it may be noted that such trade accounts for a very substantial part of the total trade turnover of the socialist countries of Eastern Europe. Trade in engineering products accounts for approximately a quarter to a half of the total exports and imports of major Eastern European economies, depending on their level of industrial development. ^{16/} Many of the socialist countries of Eastern Europe are now facing a shortage of semi-skilled and skilled labour, in the use of which relatively simple engineering products, both of the consumer goods and of the equipment variety, are fairly intensive. Several Indian economists have pointed to the possibility of expanded exports from India of such items. An example of existing opportunities for expanded Indian exports is the conventional medium-weight machine tool industry. For such machine tools foundry work, machining and assembly involve a substantial skilled and semi-skilled labour cost. The wage rate of an Indian machinist was found to be 6-10 per cent of the levels in developed economies. Even allowing for labour productivity differences, a conservative estimate of the Indian relative cost advantage, in terms of labour costs alone, was placed at about 20 per cent. Such cost advantages are considerably enhanced if scale economies on account of export are accounted for, as many Indian engineering industries are working at low capacity levels. ^{17/}

^{16/} For a discussion of the estimates and the economic compulsions underlying them, see for example, O.T. Bogomolov and A.N. Barkovsky, "Economic Co-operation Among the Council for Mutual Economic Assistance Countries", Economic Bulletin for Asia and The Far East (Bangkok, ECAFE, December 1970), pp. 11-29.

^{17/} See Indian Institute of Management, Calcutta and M.N. Dastur & Co., Survey of India's Export Potential of Machine Tools (Delhi, Indian Institute of Foreign Trade, 1969) vol. I. pp. 160-163. Also see Yoginder K. Alagh, Machine Tool Models of Growth (Bangalore, Central Machine Tool Institute, 1974).

Table IX: India's export structure in 1972-1973 and Fifth Plan targets
(1974-1979)

(In Rs. millions)

Commodity	<u>Exports (1972-73)</u>		<u>Fifth Plan target</u>
	Soc.Coun. of Eastern Europe	World total	World total (1974-1979)
Jute manufactures	673	2 500	12 000
Tea	382	1 473	8 400
Cotton textiles	438	1 735	11 550
Iron ore and concentrates	167	1 098	9 800
Cashew kernels	271	688	4 050
Tobacco, unmanufactured	303	611	3 350
Spices	108	291	1 700
Oilseeds, cake and meal	455	748	3 150
Coffee	152	329	1 900
Cotton, raw and waste	35	216	1 150
Mica	111	166	1 200
Engineering goods	189	1 387	15 000
Iron and steel	114	231	2 400
Leather	448	1 745	8 400
Coir yarn and manufactures	18	143	900
Footwear	51	126	1 050
Others	782	6 122	39 800
Total	4 697	19 609	125 800

Source: Reserve Bank of India Bulletin, op. cit., Statement 7, P.430,
for East Europe estimates in 1972-73. Draft Fifth Five Year Plan,
op.cit., pp. 78-80, for remaining estimates.

NOTE: The "others" category includes commodities which figure prominently in India's foreign trade, but not in India's export trade with the socialist countries of Eastern Europe.

A recent study has estimated the skilled and semi-skilled labour costs (both direct and indirect) of commodities entering India's foreign trade and finds that the engineering import-substitution industries are skill-intensive. 18/ A number of these industries, such as selected conventional equipment industries, intermediates such as castings and forgings, and consumer goods of the metal products variety, are now being identified for export promotion purposes. It may be noted again that, while the general record of export expansion from India of such commodities has been good, the same has not been the case with exports to the socialist countries of Eastern Europe. The emphasis in the Eastern European economies on improvement of material standards of living, combined with labour scarcity, provides increasing scope for the export of processed consumer goods from India. The record of expansion of such exports from India in items such as footwear and clothing has already been noted. Scope for export of such items as consumer products from the engineering sector and agro-based and marine products also needs to be examined in detail.

35. There seems to be growing awareness of the need for increasing exports of commodities other than primary commodities from India to the socialist countries of Eastern Europe. In recent years, trade agreements between India and the socialist countries have ended with exhortations for the expansion of such trade, while engineering goods and consumer goods have been listed in the schedule of items to be exported from India. 19/ Also, notably in the case of the Soviet Union, machinery and equipment manufactured at industrial enterprises built in India with the assistance of the USSR have been identified as another source of exports from India. Yet, as seen earlier, the success achieved in such exports has not been of a high order. A part of the difficulty in expanding Indian exports of machinery and equipment to the socialist countries, as also to other countries, is due to differences in the quality and specifications of Indian products. The exportable commodity usually must be adapted to the special requirements of the buyer as to specific technical characteristics, voltage differences, packing requirements, etc. In some cases, for example the export of railway wagons, Indian exporters have been successful in overcoming these problems, but considerable scope for improvement still exists. In addition, it would be beneficial to promote contacts and exchanges of information between Indian suppliers and the enterprises and foreign trade organizations in the socialist countries receiving Indian manufactured goods.

18/ R.J. Nambiar, "Factor Structure of India's Foreign Trade," Anvesak, Journal of the Sardar Patel Institute of Economic and Social Research, June 1972, pp. 82-89.

19/ Two official Indian periodical publications may be consulted for such evidence, (1) Indian Trade Journal and (2) India's Trade Agreements (both published by Ministry of Commerce, Government of India). References to such trade agreements exist in virtually every issue of these publications.

36. Another area of possible collaboration between India and the socialist countries of Eastern Europe which is increasingly mentioned of late is joint ventures in third countries. ^{20/} Since the proposals are at a formative stage at present, it is difficult to anticipate the exact projects that may be taken up. One area of possible co-operation between India and the socialist countries of Eastern Europe is in the developing African countries. ^{21/} There is in Africa a desire to increase the industrial base as part of the development process. Planners in African countries are conscious of Africa's industrial potential based on the domestic exploitation of rich natural resources. Considerable construction of economic overheads is also being undertaken in the process of development. Foreign exchange is available in varying degrees owing to reserves earned by the export of primary products. However, the African countries have been constrained by a lack of skilled personnel and of indigenous saving-investing entrepreneurial groups. Thus the state sector has had to play a significant role in the African development process. Certain aspects of the African development experience resemble the Indian experience; as in India, a policy of import substitution is being pursued in the initial phase of industrialization. The unit size of the African factories tends to be small and not much bigger than small-scale Indian factories. The immediate interest is to set up consumer-goods industries to produce products such as textiles, paper, electrical equipment and agricultural implements. These are precisely the areas of industrialization where Indian industry has acquired major experience in the last two decades, in terms of daily operation and also of supply of equipment and other inputs from within the economy. India can sell equipment for building up economic infrastructure such as railways, power equipment, and so on, and can share its own experiences in building up this structure at home. The sale of industrial equipment and machinery, however, requires technical collaboration and direct investment including the provision of machinery. The socialist countries of Eastern Europe, with their broader experience in industrialization, could complement the Indian contributions to the developing African nations. Many of the African Governments have welcomed investments in their industrialization schemes, often giving liberal tax concessions and special services to investors. Co-operation schemes between India and the socialist countries should take into consideration the desires of the African states to promote industrialization within their own borders, with a large participation and training of African workers.

^{20/} According to newspaper reports, such possibilities were discussed in both the Indo-Soviet Joint Commission Meetings in September 1974, and the Indo-Romanian trade discussion for 1974.

^{21/} The material on the development process in Africa has been gained in the author's visits to various African countries, and from the following sources:

- (a) Kenya, Ministry of Economic Planning and Development, Statistical Division, Statistical Abstract, 1967
- (b) Statistical Abstract, Survey of Industrial Production, 1963-1965.
- (c) Nigeria, Federal Office of Statistics, Industrial Survey, 1963 and Preliminary Tabulations, 1964, 1965.
- (d) Kenya, Development Plan, 1965-1970.
- (e) Nigeria, Guideposts for Second National Development Plan, 1966.

37. There is also a potential for co-operation between India and the socialist countries of Eastern Europe in the oil-exporting developing countries. Again, India's recent development experiences in light industry and in the building of infrastructure could be combined with the advanced technological experience and techniques of the Eastern European socialist countries.

F. CONCLUSIONS

38. The role that imports from the socialist countries of Eastern Europe played in the Indian economy in the past has already been examined in some detail. This role may now be visualized in the context of India's future development. Imports in this context act as a catalytic agent in the growth process. They help in the realization of a rate and a pattern of economic activity which, in turn, is determined by specific development objectives. Fortunately, in the Indian case it is possible to examine this role of imports in a quantitative model of the economy already estimated by the planners for the period 1974-1979, which is the basis of India's current development efforts. ^{22/} Thus the role of imports from the Eastern European socialist countries and the rest of the world could be explicitly integrated into the Indian growth model and the model subsequently solved to draw inferences as to the nature and importance of such imports within the growth process. ^{23/} The objective of this process is an overall rate of growth of the economy and a pattern of growth which meets the objectives of reducing poverty and increasing self-reliance. The aggregate GDP target is derived from the growth objective; and, given an ICOR ^{24/} and the time required for investment to mature, the aggregate investment target in the terminal year can be derived. Consumption targets for a detailed 66 sector model were set in relation to the poverty removal objective. The aggregate investment target was disaggregated by 66 sectors and an exogenous aggregate export target was also thus disaggregated. (Micro-studies were used for justifying important targets of export expansion). Imports were built into the model through a 66 x 66 import coefficient matrix and vectors of import proportions out of final demand categories. The terminal year import coefficients were derived from the base year matrix, after explicitly allowing for import substitution possibilities based on technological information relating to domestic possibilities. Together with a vector of social consumption, stock requirements and an input coefficient matrix, the model was solved for output levels in the

^{22/} Draft Fifth Five-Year Plan.

^{23/} For the justification of the superiority of such an approach, as compared to a traditional project-based approach, see J. Tinbergen, "International, National, Regional and Local Industries," in Essays in Honor of Gottfried Haberler, (Amsterdam, North-Holland Publishing Co., 1965); R. Caves, et. al., Trade, Growth and the Balance of Payments, pp. 116-125.

^{24/} ICOR = incremental capital-output ratio.

terminal year. The difference between aggregate imports and exports in the solution of the system, subtracted from aggregate investment requirements, gave the domestic aggregate savings required to be generated. ^{25/} Simulation of the model showed that variants allowing for greater reduction in inequality also led to more self-reliance, through reduced import requirements. Imports in this scheme of growth have two important functions. As an input, they are essential for the achievement of the rate and pattern of growth and thus are an instrument for achieving the growth and poverty-removal objectives. Second, reduction in the elements of the terminal year import coefficients and import proportions for final use, as compared to the base year magnitudes, are an indicator of the realizations of the only remaining objective - import - substitution. For the purpose of this study the plan model was solved to evaluate explicitly these two roles of imports from the socialist countries of Eastern Europe and the rest of the world. The results are presented in table X below. A glance at table X shows that, even if direct and indirect requirements of imports per unit of value-added generated domestically are expected to be met, to the extent of 20 per cent in the terminal year from the socialist countries, the specialization pattern of the socialist economies in India's developmental pattern is expected to continue as estimated for 1971-1972 and 1973-1974 (section D above). A detailed comparison of estimates in table X with estimates in table IV, however clearly shows that import substitution policies are dependent on sectors which are relatively intensive in imports from the Eastern European socialist economies. The only exception to this tendency is office and domestic equipment, where import substitution will affect imports from the rest of the world.

39. Recently India and the socialist countries of Eastern Europe have evolved the institutional mechanism of a Joint Commission for conduct of bilateral economic and scientific co-operation. The Joint Commission is generally headed on each side by a leader of Ministerial rank. Apart from trade discussion, problems of scientific and technical collaboration are discussed. Views are also exchanged on experience in planning. The Joint Commissions provide for a clearing house of views on problems of long-term economic, technical and scientific co-operation. Additional institutional and financial arrangements made recently within the framework of the CMEA, in particular by the International Bank for Economic Co-operation and the International Investment Bank, might further promote and strengthen the possibilities for intra-industrial specialization between India and the socialist countries of Eastern Europe. It has already been noted that economic relations between India and the socialist countries have reached a stage of maturity and significance such that problems of economic integration and individual commodity and project issues are viewed in a total framework of mutually beneficial economic integration. Indian exports in particular, as well as third country ventures, need to be looked at from this angle.

^{25/} For the specification of a broadly similar model for evaluating the role of foreign aid in the context of a national growth process see J.P. Pronk and E.J. Schreuel, "Some Reflections on the Effectiveness of Project Vs. Plan Aid," in H.C. Bos (Ed.), *Op.cit.*, pp. 283-307. The Indian plan model approximates Model II of Pronk and Schreuel (*Ibid.*, p. 295), with the difference that imports are endogenously estimated (exogenously in the Pronk-Schreuel model) and the investment vector is exogenously specified (endogenously in the Pronk-Schreuel model). Pronk and Schreuel have developed a model originally suggested by J. Tinbergen, see footnote 23.

Table X: Direct and indirect requirements of imports from the socialist countries of Eastern Europe and rest of the world per rupee of final demand for 66 sectors of the planning model: 1978-1979

(Direct and indirect imports per thousand rupees of final demand in India at 1971-1972 prices)

Planning Commission No. of Sector	Name of sector	Socialist countries of Eastern Europe	Rest of the world
(1)	(2)	(3)	(4)
1	Foodgrains	3.42	27.95
2	Other agriculture	1.45	5.48
3	Animal husbandry	0.74	5.68
4	Plantation	6.79	47.12
5	Forestry	0.09	1.57
6	Coal	0.70	18.13
7	Misc. coal and misc. petroleum products	0.61	13.81
8	Iron ore	0.04	31.88
9	Crude oil	0.25	4.57
10	Other minerals	0.54	28.52
11	Sugar and gur	0.95	9.12
12	Vegetable oils	2.99	49.04
13	Tea and coffee	3.33	28.68
14	Other food products	7.87	16.47
15	Cotton textiles	1.20	69.23
16	Jute textiles	0.71	10.93
17	Other textiles	4.23	67.07
18	Misc. textile products	0.84	14.32
19	Wood products	0.87	7.16
20	Paper and paper products	26.10	127.91
21	Leather and leather products	2.09	24.07
22	Rubber products	120.42	43.08
23	Fertilizers	16.64	312.25
24	Inorganic heavy chemicals	5.93	46.86
25	Organic heavy chemicals	6.94	61.36
26	Plastics	16.56	81.28
27	Cosmetics and drugs	112.83	204.76
28	Man-made fibres	13.76	100.01
29	Other chemicals	8.01	80.98
30	Petroleum products	236.92	426.20
31	Cement	0.58	18.73
32	Refractories	0.99	14.67
33	Other non-metallic mineral products	3.17	41.09
34	Iron and steel	2.37	29.23
35	Non-ferrous metals	6.40	170.48
36	Bolts and nuts	8.22	67.40
37	Metal containers	2.82	35.76
38	Other metal products	4.59	46.18

Table X (continued)

Planning Commission No. of Sector	Name of sector	Socialist countries of Eastern Europe	Rest of the world
(1)	(2)	(3)	(4)
39	Ball bearings	1.72	19.63
40	Office and domestic equipment	32.55	50.38
41	Agricultural equipment	86.71	938.13
42	Machine tools	58.53	115.14
43	Other machinery	272.41	351.80
44	Electric motors	25.93	88.92
45	Electric wires	21.30	214.30
46	Electronics	3.16	27.88
47	Batteries	10.70	72.81
48	Electrical household goods	3.56	61.04
49	Radio	9.98	88.17
50	Telephone and telegraph equipment	39.25	82.16
51	Other electricals	7.27	109.98
52	Motorcycles and bicycles	31.19	27.38
53	Motor vehicles	38.76	137.90
54	Ships and boats	39.11	117.79
55	Aircraft	103.44	121.35
56	Railway equipment	104.50	51.55
57	Other transport equipment	0.89	8.27
58	Watches and clocks	1.90	23.98
59	Misc. scientific instruments	111.15	274.98
60	Other industries	7.23	60.40
61	Printing	58.07	247.60
62	Electricity	0.54	8.76
63	Construction	90.63	15.27
64	Railways	0.51	7.50
65	Other transport	1.28	101.18
66	Other services	48.98	50.22

Note: See text for derivation of estimates. Data base in: Government of India, Planning Commission, A Technical Note on the Approach to the Fifth Plan of India (New Delhi, Planning Commission, 1973).